

Accum. Sch 18	Indonesia, Rp 2400	Portugal, Esc 200
Baham. Dia 0.050	Italy, Lit 1000	S. Arabia, Rb 6.00
Baham. Dia 0.050	Japan, Yen 100	Singapore, S\$ 1.10
Canada, C\$ 1.00	Jordan, Ds 100	Spain, Ptas 160
Cyprus, C\$ 0.50	Kuwait, Ds 100	Sri Lanka, Rs 20
Denmark, Dkr 7.25	Lebanon, L.L. 100	Sweden, S\$ 6.50
Egypt, E£ 1.00	Luxembourg, Lf 40	Switzerland, Sfr 20
Finland, Fmk 6.00	Malaysia, RM 4.25	Taiwan, N.T. 50
France, FF 6.00	Mexico, Mx 200	Turkey, Liras 1.20
Germany, DM 2.20	Morocco, Mh 6.00	U.A.E., Dir 6.50
Greece, Dr 20	Netherlands, Gld 2.50	U.S.A., \$ 1.00
Hong Kong, HK\$ 12	Norway, Nkr 6.00	
India, Rupee 15	Philippines, Pso 20	

## World news Business summary

### Sharp US reaction to Aquino verdict

The US State Department sharply questioned the acquittal and reinstatement of Philippine armed forces chief of staff Fabian Ver and 25 others accused over the murder of opposition leader Benigno Aquino. In Manila, the decision was immediately denounced by Aquino's widow Corason and by Cardinal Sin, the country's leading churchman.

Cardinal Sin said the decision "threatens to push our country to the brink of violence and despair," he urged the country to "pass irrefutable judgment upon the verdict" through the ballot box in presidential elections expected in February. Page 18

### Minister dies

East German Defence Minister, General Heinz Hoffmann, died of heart failure. A meeting of Warsaw Pact military leaders, which he had been due to host in Berlin, was delayed until today.

### No-confidence vote

Austrian opposition leader Alois Mock said he would bring a no-confidence motion in parliament on Friday against Chancellor Fred Sinowatz after a financial crisis at the state-owned Voest-Alpine. Page 3

### SA funeral riots

Police reported more rioting in South Africa as residents of a black township near Pretoria prepared for today's mass funeral of 12 victims.

### Punjab ban widened

Punjab authorities extended a ban on foreigners entering the state and ordered many schools to shut as Sikh extremists stepped up attacks, killing a right-wing Hindu political activist.

### Palestinian killed

A prominent Palestinian lawyer, Aziz Shemadneh, was found stabbed to death near his home in the West Bank town of Ramallah on Monday, Israeli television reported. Shemadneh was a leading Palestinian moderate who called for the establishment of an independent state with Israel's backing after the 1987 war.

### Cyprus trial opens

Three Palestinian sympathisers went on trial on murder charges for the September 25 killings of three Israelis aboard a yacht at Larnaca, Cyprus.

### Korea hunger strike

Members of South Korea's main opposition party have staged a one-day hunger strike in parliament to protest against the ruling party's approval in private session of the country's 1986 budget.

### Bonner flies out

Yelena Bonner, wife of dissident Soviet physicist Andrei Sakharov, flew to Rome for medical treatment after spending 19 months in internal exile.

### Gang robs Brinks

Armed robbers working in two teams stole FFr 10m (\$9m) from the Brinks armoured transport company at Colombes, northwest of Paris, in one of the biggest cash thefts in France.

### Philip Larkin dies

Philip Larkin, one of Britain's best-known poets who reportedly turned down the post of poet laureate, died at the age of 63 after complications which followed a throat operation. Obituary, Page 15

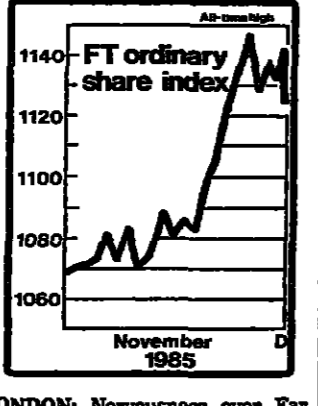
### Rugby tour off

The South African Rugby Board withdrew an invitation to the British Lions team to tour next year in an attempt to safeguard relations with Britain's four rugby union bodies.

### Boeing 'to buy De Havilland' for \$111m

CANADIAN Government is to sell loss-making state-owned De Havilland aircraft manufacturer to Boeing of the US for C\$155m (\$111.5m).

BRITISH Government indicated that the Fraud Investigation Group - the main agency for dealing with serious cases of business theft and deception - needed more resources to pursue cases of alleged fraud. Page 18



LONDON: Nervousness over Far Eastern markets eroded early enthusiasm which had been sparked by takeover activity. The FT Ordinary share index closed 18.5 down at 1,124.4. The FT/SE 100 share index shed 20.6 to close at 1,418.5. Page 42

WALL STREET: At 3 pm the Dow Jones Industrial Index was 15.48 down at 1,456.65. Page 42

TOKYO: Speculative trading of small-capital issues was the only active note in an otherwise dull session. The Nikkei average gained 17.39 to 12,796.92. Page 42

DOLLAR improved in London, rising to DM 2.521 (DM 2.511), FFf 7.6875 (FFf 7.6775), SFf 1.1035 (SFf 1.091) and Y 294.05 (Y 292.1). On Bank of England figures, the dollar's index rose to 126.8 from 126.3. Page 35

STERLING lost 10 points against the dollar in London, falling to \$1.4575 (SFf 1.4575), DM 2.521 (DM 2.511), FFf 7.6875 (FFf 7.6775), SFf 1.1035 (SFf 1.091) and Y 294.05 (Y 292.1). On Bank of England figures, the dollar's index rose to 126.8 from 126.3. Page 35

GOLD fell \$5.25 on the London bullion market to \$319.75 and \$4.40 in Zurich to \$322.25. Page 34

WESTLAND, the troubled British helicopter company, is expected to announce a package of redundancies today. Unions fear that as many as 750 jobs could be lost.

MANNESMANN, West German engineering group which already announced higher first-half sales and profits, plans to raise investment next year to DM 863m (\$543m) from DM 788m in 1985. Page 19

KYMI-STRUMBERG, Finnish forest industry and power technology group, is to take over Kankas, one of the country's leading forest industry companies, in an agreed merger that will make Kymi the third biggest industrial concern in Finland. Page 19

HUNGARY expects to borrow about \$1bn in the international capital markets next year, half this year's total, according to Janos Fekete, first vice president of the country's national bank. Page 19

BROWN BOVERI, Swiss electrical engineering group, is taking a large controlling stake in its West German subsidiary and plans a wide-ranging reorganisation to optimise its global resources. Page 19

CONTROL DATA, financially troubled Minneapolis-based computer and computer products group, has sold the direct equipment finance portfolio of its Commercial Credit financial services subsidiary to Sanwa Bank of Tokyo. Page 19

HENKEL and Schering, West German chemicals groups, have dropped plans for the merger of some of their US operations after failing to agree on a price. Page 19

## Community leaders struggle to agree on Treaty reform

BY QUENTIN PEEL AND IVO DAWNAY IN LUXEMBOURG

LEADERS of the European Community were last night bogged down over the detail of how to reform the EEC, with Mrs Margaret Thatcher, the British Prime Minister, once again in danger of being left in a minority.

Chancellor Helmut Kohl of West Germany was reported to be shifting position on two key issues in the debate - a definition of the Common Market as "an area without frontiers" and the inclusion of monetary questions in the reform package - leaving the UK as the only large member state opposed.

There was little immediate sign of a willingness to compromise on the reform plans by either Mrs Thatcher or Mr Poul Schluter, the Danish Prime Minister, the two heads of government most consistently doubtful about the benefits of revising the Treaty of Rome.

Officials in Luxembourg slowly maintained that some progress was being made, at least in "clearing the ground" for the most difficult outstanding problems to be concentrated on.

The EEC summit, planned as the launch pad for a major reform package, was plagued by upsets from the start.

President Francois Mitterrand of France delayed his arrival until after the formal lunch offered by the Grand Duke of Luxembourg - a move interpreted as an obvious snub to the country currently in the EEC presidency, because of Luxembourg's public anger at losing the contract for two new French television channels.

Then, during the afternoon, an explosion close to the summit building on the Kirchberg caused a flurry of policy activity, when a home-made grenade was thrown from a passing car. The main road was blocked off as the security forces searched for any unexploded devices.

Inside the meeting, however, the atmosphere was of controlled irritation rather than explosive anger as the heads of government sought to narrow their differences.

The same problems which have plagued officials seeking to prepare the reform package over the past three months remain at issue, in spite of substantial progress towards a common deal.

Several countries are still seeking special exclusions from a general rule to adopt majority voting, instead of unanimity, on proposals removing national barriers to a genuine Common Market. The UK and Ireland want an exception for quarantine controls affecting plant, animal and human health. Denmark wants protection for its high environmental and safety standards.

West Germany has moved on the final point of higher standards, agreeing to trust the Commission to bear them in mind when making any proposals for EEC-wide rules.

Chancellor Kohl yesterday appeared flexible, too, on the question of whether the Common Market should be defined as "an area without frontiers", implying the free movement required for a truly open economic market. Mrs Thatcher is fighting to limit the definition in order to prevent the complete removal of controls against drugs and terrorism at frontiers.

The German Chancellor also appeared ready to accept a Dutch compromise on writing monetary affairs into the reform package, although the proposal does not seek to include details of the operation of the European Monetary System.

Continued on Page 18

Squaring off over the EMS, Page 2

## Distillers spurns £1.9bn takeover bid by Argyll

BY LIONEL BARBER IN LONDON AND MARK MEREDITH IN EDINBURGH

DISTILLERS, the Scotch whisky combine, yesterday rejected the long-awaited £1.9bn (\$2.8bn) hostile takeover bid launched by Argyll, the supermarkets group led by Mr James Gulliver.

Describing the offer as a "sightings shot", the Distillers (DCL) board said the bid was "unwelcome and completely inadequate". At last night's closing prices, the offer values DCL at 50p a share.

Mr Bill Spengler, DCL's newly appointed American executive director, said in London: "Mr Gulliver deals in potatoes and cans of beans. He does not understand the whisky business."

In a glossy brochure for DCL shareholders, partly prepared by the advertising agency Saatchi & Saatchi, Argyll used excerpts from critical press reports to support its case that DCL's management had "failed", both in marketing its whisky brands and in its growth over the past 20 years.

The opening moves in the UK's largest corporate takeover battle came in Scotland, where both groups have strong interests.

Mr Gulliver announced that he would make Edinburgh the headquarters for a group including DCL to form the largest private company in Scotland. He said 300 jobs in management and administration would be created.

Analysts interpreted Mr Gulliver's words as an effort to pre-empt any move to refer his bid to the Monopolies Commission on the ground of public interest. DCL, formed in 1877, is Scotland's largest company and employs around 7,200 people there.

Argyll, formed in 1979, employs more than 8,000 in Scotland, most of them in the Presto supermarket chain. One of its lead bankers providing loan finance for the bid is the Royal Bank of Scotland, which is also an important banker for DCL.

## Singapore securities firms seek emergency backing

By Chris Sherwell in Singapore

SINGAPORE'S domestic stockbroking firms were last night seeking emergency financial support from regulatory authorities and leading banks in the island state, according to local brokers and bankers.

Talks aimed at staving off failures within the securities industry followed the indefinite suspension from yesterday morning of all dealings on the Singapore stock market.

The unprecedented trading halt was called because some brokers appeared likely to default on a series of forward share transactions.

In neighbouring Malaysia, the Kuala Lumpur stock exchange decided on a temporary halt to dealings. The two markets are linked, with many companies from each country quoted on both.

The threat of broker defaults came in the wake of the collapse of Pan-Elctric Industries, a Singapore-based marine salvage, hotel and property group.

It was placed in receivership at the weekend with debts of some S\$400m (\$191m) and commitments by the group and its subsidiaries to buy at least S\$140m worth of shares which they cannot fulfil.

Foreign brokers which deal through local firms moved anxiously yesterday to settle bargains made last week. One said it had been asking clients for banker's drafts rather than cheques.

In turn, Singapore brokers who travelled to Kuala Lumpur to deliver scrip found that it was not being accepted and that payments for previously agreed deals were not being made - a situation one described as being as damaging as the trading suspension.

The Monetary Authority of Singapore, the powerful quasi-central bank, is playing a key role in the talks over the future of the broking firms, which number more than 20.

Details of proposals remained unclear but any "lifeline" scheme is thought likely to require an injection of funds by the big four local banks.

Bankers cautioned, however, that such a scheme would be justified only if it resulted in widespread reforms to Singapore's stockbroking practices.

Many hope that it would hasten long-discussed changes, such as approval for local banks to take over broking firms and for foreign securities houses also to be allowed equity stakes in the brokers.

Continued on Page 18

Lex, Page 18; Stock market reports, Page 42

## Agip bid to thwart Elf in North Sea

BY DOMINIC LAWSON IN LONDON

AGIP, the Italian state oil company, and Century Power and Light of the UK, have made a last-minute \$182m counter-bid for Phillips Petroleum's 35 per cent stake in T-Block, the largest undeveloped oil accumulation in the North Sea.

A month ago Elf, the French state-controlled oil group, bid \$182m for the Phillips stake, after an oil industry auction lasting several months.

The sale is part of the US oil company's plan to raise \$2bn to fund a capital reconstruction set up to block a bid by Mr T. Boone Pickens, the US corporate raider.

T-Block, which contains about 300m barrels of recoverable oil reserves, would cost at least £1bn to develop. Although more than £100m has already been spent on 17 wells with no declaration of commercial viability, it is likely that Agip's bid is based on a plan to produce oil from the field by 1990.

After Elf's bid the field's existing partners - Agip, Petrofina of Belgium and two UK companies, Lasmo and Century - had until yesterday to match the terms and block Elf's bid.

The oil industry had thought that Elf's bid, the largest North Sea deal since BP sold off part of its Forties field in 1983, would be too much for Phillips's partners to match.

Agip yesterday notified Phillips that it was prepared to bid \$150.8m for a further 29 per cent stake in the field, adding to the 18 per cent in already owned. Century is believed to have offered Phillips \$31.2m for the remaining 6 per cent. Petrofina and Lasmo decided not to match Elf's bid.

At a meeting of partners today Agip is likely to ask to act as the field's operator. With Agip having a 47 per cent stake in the group, this would likely be approved by the other partners, although Agip has no previous experience of developing a North Sea oilfield.

Agip yesterday refused to comment on the bid but pointed out that it had worldwide operating experience "from China to the Gulf of Mexico."

The deal marks a commitment by Agip to a larger and more active role in the North Sea.

Century is well able to fund its part of the deal. It is 59 per cent owned by IC Gas, a UK-quoted company that has recently received £72m through the sale of its Compair subsidiary.

Continued on Page 18

## Paris eases foreign exchange controls

BY DAVID HOUSEGO IN PARIS

THE FRENCH Government last night eased restrictions on French companies investing abroad as part of a significant relaxation of foreign exchange controls on both companies and individuals.

The moves are in line with the Government's policy of deregulation and of opening up the financial markets. But they leave intact the main battery of controls, including restrictions on tourist travel allowances and the requirement on companies to repatriate foreign exchange dealings, which the Government believes are still needed to protect the franc.

As part of the further relaxation announced last night, French companies will be freed of any requirement to finance investments abroad in foreign exchange. Under existing regulations, they required to finance 50 per cent of their acquisitions in foreign currency - itself an easing of an earlier requirement that 75 per cent of financing be in foreign currencies.

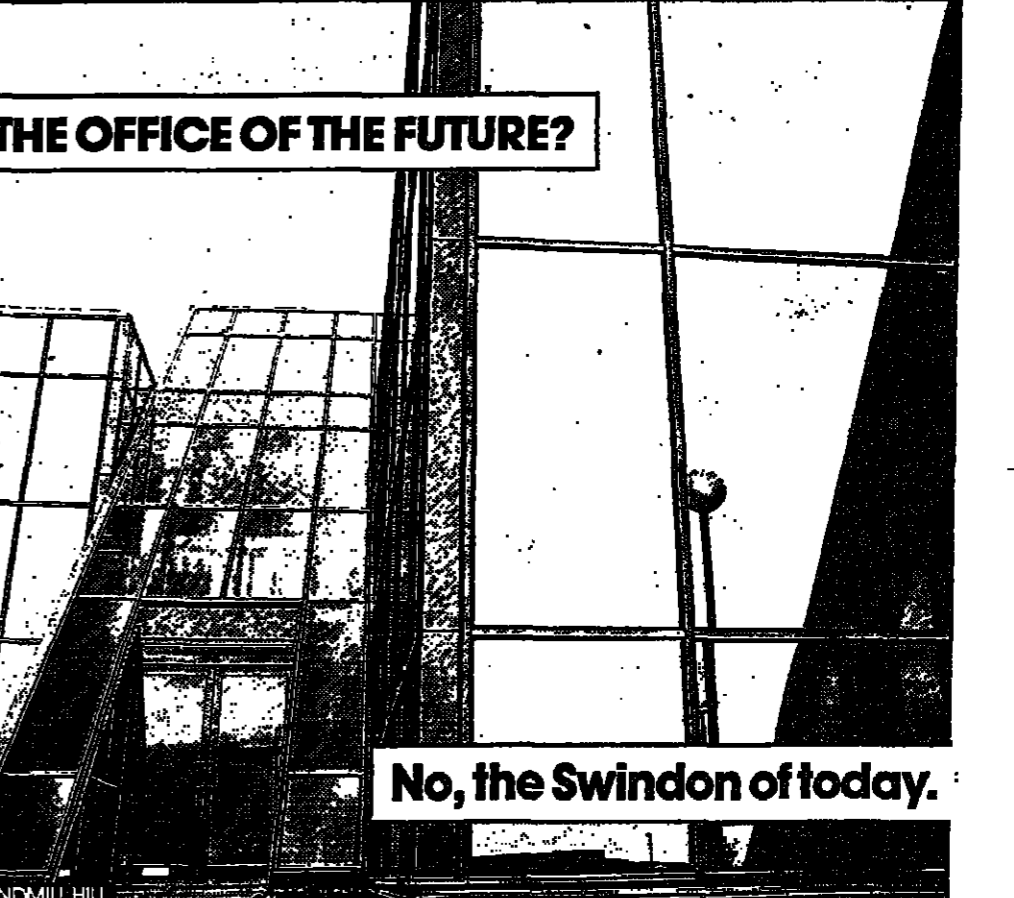
At the same time, the threshold on which official approval is required for investments abroad has been raised from FFf 2m to FFf 15m (\$1.95m).

Under the new measures, French companies will be able to hedge against foreign exchange risks through use of such mechanisms as options, arbitrage and futures trading. They will also be given greater flexibility to negotiate interest rate changes in managing their foreign debt.

The Government has, however, decided to keep the foreign exchange premium which French residents must pay in purchasing foreign equities - even though the premium is now minimal. But French residents are being given additional scope to use the premium for purchase of short-term instruments such as commercial paper and certificates of deposits.

The new measures are intended

Continued on Page 18



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## EUROPEAN NEWS

## Le Monde offers shares to readers

By David McUsogo in Paris

LE MONDE, France's leading daily newspaper, yesterday offered its readers shares in the paper to raise FF 15m (\$1.5m) of new capital. The offer looked like being heavily subscribed after some 10,000 readers showed their loyalty to the paper by queuing on Saturday to be shown round its offices in the Rue des Italiens.

Along with a subscription form for the FF 500 shares, the newspaper published yesterday the first detailed analysis of its accounts. These show that it expects to transform an operating loss last year of FF 61m into a small operating profit this year of FF 9m. But with the sale of its headquarters building for FF 147.5m, it anticipates a net profit this year of FF 55.5m.

Le Monde readers are being given a 12.5 per cent stake in the newspaper, which has until now been owned by its founders and staff. The newspaper was forced to look for outside capital as a result of its financial difficulties but it resisted putting its independence at stake by opening its capital to other institutions or companies.

The recovery in the newspaper's finances comes in the wake of the nationalisation measures carried out by Mr Andre Fontaine who took over as editor in chief in January. Mr Fontaine claims to have achieved savings worth FF 100m in a full year through cuts in staff, a reduction in the newspaper's salary costs, and other measures.

Le Monde readers will be able to buy as many shares as they wish but any one individual will be limited to 10 votes in the company that will represent readers' interests.

Le Monde revealed yesterday that it expects readership to fall by 5 per cent both this year and next, but for turnover to rise because of increases in the cover price and advertising rates.

International

THE ARTS Daily

## Britain seeks to wrap up SDI accord

BY BRIDGET BLOOM, DEFENCE CORRESPONDENT, IN BRUSSELS

AN ATTEMPT to finalise British participation in the controversial US Star Wars research programme will be made today when Mr Michael Heseltine, the UK Defence Secretary, meets Mr Caspar Weinberger, his US counterpart. At a second meeting which will also take place in the margins of Nato's defence planning committee meeting here tomorrow, Mr Heseltine will join the ministers of Italy, West Germany and Spain to discuss the recent US approach for involvement in their European Fighter Aircraft (EFA) project.

An outline agreement on British participation in the DEFENCE ministers of Britain, West Germany and Italy are expected to meet in Brussels to discuss a joint European rescue bid for Westland, Britain's ailing helicopter company, writes Bridget Bloom.

If a European deal is to go ahead involving Messerschmitt, Bolkow-Blohm of West Germany, Agusta of Italy and Aerospatiale of France, ministerial decisions will be needed to rationalise production by the four companies. Separate discussions will be held with France which is not a member of Nato's planning committee.

\$26bn Strategic Defence Initiative, the so-called Star Wars programme, negotiated over the past few months, has been hanging fire since Mr Heseltine and Mr Weinberger met here a month ago. This is partly because of objections to certain aspects of the agreement from Mr Heseltine's cabinet colleagues.

The Department of Trade and Industry, in particular, is believed to be uneasy that the agreement would not provide adequate assurances that British companies or research institutions involved in the programme would be able to use the results of their research freely.

It is already clear that the agreement will be far from his original wish to have a guaranteed \$1.5bn share in the programme, though among matters to be discussed today is said to be the possibility of

agreeing specific contracts at the same time as an "umbrella" agreement is signed.

Meanwhile, Mr Heseltine and his three European colleagues are expected to see whether they can reach a common stand on Mr Weinberger's proposal that the US should have some formal involvement with the European fighter aircraft project.

In a letter to the four ministers, Mr Weinberger is said to have suggested there could be scope for standardising components which might be used both in the EFA and in the planned new US fighter aircraft, as well as in the possible joint use or development of avionics systems and weapons equipment.

Mr Weinberger did not suggest any financial participation in the EFA as the French have done recently. The European defence ministers are expected to approve what has become known as the "conceptual military framework" a document which has been prepared by Nato's civilian and military staff over the past year and which endeavours to give coherence both to new developments in military strategy and to long-term strategic planning.

The document analyses the Warsaw Pact's capabilities and operational concepts with the aim of determining what changes might be necessary in Nato's own concepts in its forces and weapon systems over the next 20 years.

In this, Nato is breaking new ground for it normally plans collectively for only five years ahead. The framework exercise will involve the whole alliance in weighing up the implications, for example, of a future tank-less battlefield, or air defences, without manned aircraft. The main new weapons under discussion are so-called emerging technology systems designed to attack deep into enemy territory.

The ministers are also expected to be critical of the recent Dutch decision unilaterally to reduce its "nuclear tasks" in the alliance from six to two. The Netherlands will now deploy only medium-range US cruise missiles and short-range artillery.

## EEC states square off over monetary plan

BY QUENTIN PEEL IN LUXEMBOURG

MR JACQUES DELORS, President of the European Community Commission, says it is a miserable effort, no more than a statement of what everybody does anyway.

Mr Hans-Dietrich Genscher, West Germany's Foreign Minister, says it amounts to a leap in the dark, and would widen the gap between hope and reality.

Mr Nigel Lawson, the British Chancellor of the Exchequer, is so hostile his remarks are said to be "incredibly violent," his attitude "furious."

The question at issue is whether to write paragraphs into the Treaty of Rome on exchange rates and monetary policy for the EEC.

In a fledgling form, such a policy already exists as the European Monetary System (EMS), the exchange rate mechanism which links eight of the 10 Community currencies (sterling and the drachma are missing). Its relative success has boosted the Ecu, the European currency unit whose value derives from a basket of all the national currencies and which is increasingly widely used for both public and private transactions.

## EEC SUMMIT LUXEMBOURG

But the EMS is based simply on an intergovernmental agreement reached at the European Council in Bremen in 1978. It does not have any official, judicial position in relation to the EEC institutions, like the European Commission and the European Parliament.

Mr Delors, the Commission president, and several member states like Belgium, Italy and France, want to write the EMS into the Treaty as part of the whole reform package being discussed at this week's Luxembourg summit.

They insist that it would not change the present system significantly, although they admit that it would give the European institutions some greater influence over its development. The Commission, for example, would

become responsible for formal proposals aimed at deepening economic and monetary co-operation. What the reformers want is a commitment to develop this co-operation as an underpinning for the eventual barrier-free common market, but without any rigid deadlines.

Mr Delors' plan would not oblige member states to participate in the exchange rate mechanism. Only those member states "which are able to meet its obligations" would do so. It would perhaps increase the moral pressure on the UK to include sterling.

It would set an ultimate goal of achieving "economic and monetary union" in the EEC. The present system is kept well away from Community structures, except that the Commission provides the monetary committee with a secretariat.

In addition, the central bankers of the member states meet separately on the occasion of Bank for International Settlements meetings in Basle to co-ordinate their policies.

Mr Lawson and Mr Stollenberg fear that such an apparently smoothly functioning system could be upset by the planned reform.

autonomy of the Bank of England and the Bundesbank.

Mr Gerhard Stoltenberg, the West German Finance Minister, repeated his familiar insistence that member states must fall in line with existing obligations before any new step is taken. That means France, Italy, Ireland and Greece must relax their exchange controls, and the UK should join the exchange rate mechanism of the EMS.

The underlying fear is loss of control over national economic policies, although the public charge is that any monetary capacity written into EEC law would inevitably become overlaid with a new bureaucracy. The present system is kept well away from Community structures, except that the Commission provides the monetary committee with a secretariat.

In addition, the central bankers of the member states meet separately on the occasion of Bank for International Settlements meetings in Basle to co-ordinate their policies.

Mr Lawson and Mr Stollenberg fear that such an apparently smoothly functioning system could be upset by the planned reform.

Behind their arguments, however, lurks another. As long as the system is run according to the Bremen text, then its further development — the planned second phase — is subject to inter-governmental agreement. It does not automatically get whipped up into familiar EEC confrontation in the present institutional system.

The second phase included development of the EMU into the European Monetary Fund, an embryonic EEC central bank. It was supposed to come into effect in 1981, but was quietly postponed.

The reformers are seeking to assuage the fears about loss of national sovereignty by assuring London and Bonn that any further development would be subject to formal ratification by national parliaments.

West Germany yesterday hinted that it might be prepared to move on the question — given assurances from France and Italy that they would seriously begin to dismantle their exchange controls. The outcome last night was still in the balance.

## European soap opera has Luxembourgers frothing

BY IVO DAWNAY IN LUXEMBOURG

THE GREAT European soap opera, now completing its triumphant 25th year, yesterday took a decidedly Ruritanian turn when the host nation Luxembourg stepped to the centre of the stage.

Connoisseurs of the convoluted EEC plot may have expected the opening of the summit to have been dominated by the "corridor" talk on such grandiose questions as the liberalisation of the internal market or steps towards European Union.

Not a bit of it. Yesterday's

near slapstick episode might have been entitled "The Mouse that Roared II" or "Have they told the President?" Throughout the day the story that much inflamed passions, or at least guffaws, was the outbreak of hostilities between the plucky Luxembourgish and an allegedly perfidious France.

The story so far: Just over a year ago amid much fanfare, that it would give the European Commission (CLT) signed an historic agreement allowing it to take up two channels on TDF-L, the French broadcasting

satellite.

Such an event may count for a shrug elsewhere but in this tiny dukedom CLT pays more in tax to the Treasury than any other company, including the international banks and Arabed, its ailing state-owned steel producer. Indeed, many Europeans believe fabulous Luxembourg is not so much a country as a broadcasting station.

When its previous Prime Minister, Mr Pierre Werner, became president of CLT many here argued it was a promotion.

In these circumstances, it was hardly surprising that the country reeled at the news last month that France had decided not to honour its agreement but to offer the two satellite channels to the Italian Socialist millionaire, Mr Silvio Berlusconi, and the British newspaper owner Robert Maxwell.

Whatever the French explanation for the move, the new Luxembourg Premier, Jacques Santer, is furious. The Government publicly described the move as "treachery" and CLT

promised a fight to the death in the courts.

To add insult to injury, President Francois Mitterrand gave great offence yesterday by not turning up for the morning session of the summit and then failed to attend the lunch given for all heads of government by Grand Duke Jean.

## FINANCIAL TIMES

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## Lisbon names farm expert for Commission

BY OUR LISBON CORRESPONDENT

PORTUGAL HAS named a former Minister of Agriculture and Fisheries Minister, Mr Antonio Cardoso e Cunha, as its commissioner, strengthening expectation that it will be given the fisheries portfolio on the Commission when it joins the Community next month.

The surprise nomination suggests that the Social Demo-

crat Government has chosen a technician to revive a sensitive political question. Several prominent party figures were vying for the post.

Prof Amal Cavaco Silva, the Prime Minister, said the nomination took into consideration the areas for which Portugal would like to take responsibility. His announce-

ment followed a series of contacts with Mr Jacques Delors, the Commission president.

Responsibility for Community fishing policy is expected to attract some dissatisfaction within the Portuguese Government. Funds at the commissioner's disposal are limited compared to the social affairs

portfolio, which fell to Spain, a regional policy. Moreover, a Portuguese fisheries commissioner will find himself in the delicate position of dealing with the integration of the massive Spanish fleet into the community against a background of bitter wrangles over fishing rights between the Iberian neighbours.

**IS THE GOVERNMENT GENUINELY LOOKING AT BOTH CROSS CHANNEL PROPOSALS?**

Government representatives from Britain and France are currently evaluating various proposals for a Channel fixed link. Both governments are keen to reach a final decision in early 1986. (How on earth can they wade through an estimated 10 tons of documentation so quickly?)

This determination to force the issue suggests that both governments have already made up their minds — there will be a Channel fixed link, come hell or high water.

Quite clearly both governments are suffering from tunnel vision. They are closing their eyes to the fact that the ferries already provide a flexible and efficient service. A service that offers a wide choice of points of arrival and departure.

And with the advent of 'Super Ferries' this cross-Channel proposal will offer cheaper fares than any fixed link can promise. A fixed link needs to create a monopoly to be financially viable. This would sink all the Continental ferry routes, not just Dover-Calais and open the floodgates to higher fixed link fares.

No matter what the British government might say, one thing is crystal clear. It is only looking at half of the story. And by doing so, it is turning a blind eye to the case for Britain's cross-Channel ferries.

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## 'European pillar' in need of foundations

By Paul Betts in Paris

A FOUR-DAY meeting of the Western European Union (WEU) assembly this week is expected to turn into a test of so far half-hearted efforts to transform it into a "European pillar" of the Atlantic alliance.

Mr Jean-Marie Caro, French president of the seven-nation assembly, yesterday expressed concern about the lack of action to put into practice the so-called Rome declaration of October 1984 when ministers of member countries asserted their intention of giving new life to the WEU. He questioned whether European governments really wanted to turn the WEU into an active forum and bitterly criticised the assembly's "pitance" of a budget.

"How can you talk about reactivating the WEU with a zero growth budget at a time when you need funds to develop it," he said.

Mr Caro hoped this week's European summit in Luxembourg would give a new push to revitalising the WEU. He listed issues which he claimed made nonsense of the idea that the organisation was being reactivated. These included:

- The postponement of a study of the political and military aspects of the US Strategic Defence Initiative (SDI) which was part of the proposal agreed by ministers in Bonn last April to try to harmonise the reactions of WEU member countries to the SDI.

- The failure to start an examination of disarmament issues announced by Mr Hans Dietrich Genscher, the West German Foreign Minister, at the end of last year.

- The failure to define adequately the tasks of the new agencies covering disarmament, security and defence, and arms development which were supposed to be set up as part of the reactivation of the WEU.

- The failure to give an answer to Portugal's 1984 application for membership.

Apart from discussing the future of the WEU, the assembly will spend two of the meeting's four days debating the SDI. Several ministers including Mr Giulio Andreotti, Italy's Foreign Minister, Mr Giovanni Spadolini, its Defence Minister, Mr Roland Dumas, the French Foreign Minister, and Baroness Young, Britain's minister of State for Foreign and Commonwealth Affairs, are due to address the session.

## Poles see no hope of better US relations

By Christopher Bobinski in Warsaw

POLAND'S relations with the United States are unlikely to improve despite last month's Geneva summit says the government spokesman, Mr Jerzy Urban.

Writing at the weekend under his pen name of Jan Rem, he blamed the US for showing a lack of will to improve relations. These soured after four years ago and the West imposed economic sanctions, many of which have since been dismantled. According to Mr Urban, however, Poland wants an improvement as a return to normal relations with the US would help restore much-needed trade credit from the West.

He said US policy was seeking to undermine Poland's political system by supporting the underground opposition. Even if the US-Soviet dialogue brought an improvement in the international climate, Mr Urban feared that Washington would keep up its hard line on Poland to demonstrate its anti-Communist credentials.

## East Germany aims for Comecon's highest growth

By Leslie Colly in East Berlin

EAST GERMANY is again planning the highest economic growth of any European Comecon country: 4.4 per cent next year to be achieved by a record 8.1 per cent increase in industrial productivity. The targets recently announced by other Comecon members range from 3.8 per cent in the Soviet Union to Hungary's 3 per cent.

The government will provide the largest ever subsidies totalling DM 46.2bn (£12.3bn)—DM 40bn this year—to maintain low prices for basic food, transport and other necessities. Industrial output is set to rise by 4.3 per cent, agricultural production by only 0.3 per cent. The cent higher net income while retail sales are to rise 4 per cent. The latter indicators of the standard of living are somewhat distorted, though, as East Germany does not acknowledge the creeping price rises which have taken place for all but basics.

The growth rate is to be achieved against the background of a 2.7 per cent increase in defence spending. There is to be only a small increase in investments, from DM 56bn this year to DM 63.1bn. Mr Willi The Prime Minister, Mr Willi Stoph, announced that 17,000

# North Cypriot backwater immobilised by security worries

David Barchard, recently in Kyrenia, looks at the political and economic future of one half of the island

ELEVEN YEARS after Turkish troops landed in northern Cyprus and cut the island into two zones, the juke-box in Bedil's restaurant beside the ruins of Salamis is silent. It has been kept clean and polished throughout the period, but no one has yet brought the spare part to make it work again.

Half-empty busloads of British tourists, who have crossed the green line from the Greek south, draw up outside Bedil's restaurant every day to tour Salamis. They find sun and sparkling white beaches, but little else.

Since 1974, northern Cyprus has been a backwater, cut off from the rest of the Mediterranean world by its lack of international recognition. About 20,000 tourists a year visit from countries other than Turkey. The flow of Turkish tourists has dried up in the last two years because the Ozal Government has liberalised the import rules, allowing goods from mainland Turkey which parries off housewives from Ankara and Istanbul used to take shopping trips to Kyrenia to buy.

As a result, there are strains on Northern Cyprus's balance of payments. Exports in 1984 were worth \$38m (of which \$21m worth went to the UK) and the trade deficit reached \$88m.

Despite this, gross national product is reckoned to have improved by 7 per cent, although GNP per capita is now put at \$1,200, only

slightly ahead of mainland Turkey and far behind the \$4,500 in the Greek Cypriot south of the island.

Managerial problems seem to carry most of the blame, however. Two bodies dominate economic life in the north. One is Evkar, the pious endowments foundation which owns such potential money-spinners as the famous Dome Hotel at Kyrenia. The other is Sanayit Holding, a public sector body which assumed responsibility for most of the industrial enterprises inherited after the war from the Greeks.

Under state ownership, once-flourishing hotels like the Dome and the Salamis Bay Hotel have crumbled and declined. Leonard

Fairclough of the UK, which owns a majority stake in the Salamis Bay, have been battling in the courts for their claims to be recognised. If they win, they will probably sell the hotel to a private sector operator. If they lose, the present deterioration will probably continue.

At Omorfo and at Famagusta, Polly Peck International's plants seem to demonstrate that private enterprise can make easy profits in the North. Both the packaging factory and the fruit sorting plant are easily superior to anything else in Northern Cyprus or on the mainland, where the distinction between first class fruit, acceptable in Western supermarkets, and unsold fruit, still has to

be learned by most producers. International diplomacy, as much as local issues, still dominates political discussions. Eyes are fastened on the South to see the results of the general election on December 8. If, as many Turkish Cypriots expect, President Spyros Kyprianou finds himself unable to control the new parliament, it is assumed that diplomacy between the North and the South may take a new turn.

Mr Kyprianou is widely assumed to be intransigent and unable to negotiate a settlement. "Probably a better tactician will emerge," says the Turkish Cypriot President, Mr Rauf Denkash. But he adds: "Whoever comes will have to

follow the Athens line." For him, this means that a breakthrough is unlikely.

Mr Denkash and others are often accused of being content with the status quo. It might be more accurate to say that they are not content with the non-recognition and isolation that the status quo implies, but they want only one type of settlement — a bizonal loose federation with restrictions on freedom of movement and economic union which would protect the Turkish Cypriot identity and interests. Such an arrangement has few, if any, parallels in any other state.

Mr Denkash and Mr Kenan Atakol, his Foreign Minister, are now more worried, however, about the Greek Cypriot desire to move to a full customs union with the European Community. "It would be a form of recognition for us, too," says Mr Denkash. "If we were excluded from the union."

But the assumption is that customs union would be followed swiftly by an application for the Republic of Cyprus to be admitted as a full member to the European Community. Britain, it is said, is helping the Greek Cypriots down this road by endorsing the customs union proposal.

Mr Denkash meanwhile is pressing for more economic independence. The use of the Turkish lira for most transactions means that Turkey's raging inflation is imported by the North. "We should have

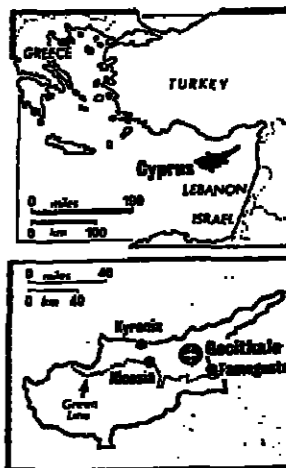
our own currency," says Mr Denkash. "We don't want to take this major step while talks are on the horizon, but no one should expect us to be tied to the Turkish lira for ever."

A currency—to be known as the North Cyprus dollar—is said to have already been printed, awaiting the day that Mr Denkash decides to issue it. It will probably be tied either to the US dollar or the pound sterling, since 40 per cent of the North's trade is done with Britain with which it has a balance of payments surplus.

If, as everyone seems to expect, the intercommunal talks do not get off the ground again early in 1986, long-term perspectives are hazy. The key may lie in the two largest developments on the island, the vast new airport with its three-mile long runway being built at Gecitkale, or Lefkonico as the Greek Cypriots call it, and Kyrenia's large new harbour, scheduled for completion in spring next year.

One theory is that the new port and airport, both of which would lie in the Turkish zone after any settlement, are there as a strategic guarantee. If Turkey agrees to pull its troops out, it could use both installations to rush troops back again in an emergency if the settlement broke down.

Another theory has it that the facilities are being dangled as a bait to the US, if there is a final rupture between Wash-



ington and Athens and the US bases in Greece are shut down.

Mr Denkash, who now has the gentle, relaxed and self-confident air of a founding father and elder statesman, will not be drawn on either topic. He is, he says, looking forward to his retirement. Elected last June by more than 70 per cent of the population, he says this five-year term in office will be his last.

"I want to go back to the things I enjoy in five years' time, village life, writing, photography, and my other hobbies. I don't think I'll continue any longer," he said. It is difficult to believe that his successor will have as sure a touch, either in domestic politics or in the interminable international negotiations to resolve the island's future.

## Bulgarians tell Ozal to stop interfering

THE DISPUTE between Sofia and Ankara over the fate of the Turkish minority living in Bulgaria intensified this week as Bulgaria prepared to carry out a population census, writes Patrick Blum in Vienna.

A group of 61 prominent Bulgarians have written to Mr Turgut Ozal, Turkey's Prime Minister, accusing him of interfering in their country's affairs following allegations about the mistreatment of Bulgaria's Turkish minority. These were "a gross provocation and a noisy demonstration of chauvinistic feelings," the

letter says. It adds that Mr Ozal is lying and calls on him to end his anti-Bulgarian campaign.

The letter was signed by Bulgarians who have changed their names from Muslim to Bulgarian ones and include the Chief Mufti.

Before the census Bulgaria launched a campaign for members of its ethnic Turkish minority to change their names to Bulgarian ones. According to Ankara, the estimated 100,000 Turks there have been forced to do so, many of them being killed and intimidated by the armed forces when they refused.

Bulgaria denies the existence of a Turkish minority, saying that after waves of migration all that remained were Bulgarian citizens some of whom had Islam as their religion.

A Turkish Foreign Ministry official said yesterday that Bulgaria was seeking to eliminate all statistical evidence of the existence of its ethnic Turks. The Turkish press has described the census as a farce. The census described officially as the 14th since the country was liberated from the Ottomans will be carried out from December 12.

## Rumasa's founder refused bail

By David White in Madrid

THE EXAMINING magistrate investigating charges of irregularities in Rumasa, the former Spanish business conglomerate, yesterday refused bail for Mr Jose Maria Ruiz-Mateos, the group's founder and chairman, following his extradition from West Germany.

Mr Ruiz-Mateos made his second appearance before the magistrate, Judge Luis Lera, yesterday morning but said afterwards he was bound not to comment. However, he told reporters he was confident that he would win and made a victory sign as he left the court building.

On his arrival in Madrid on Saturday night, the fugitive financier was greeted by a crowd of extreme right-wingers. They see the case as a way of inflicting damage to the Socialist Government of Mr Felipe Gonzalez, which seized the entire Rumasa group in February, 1983.

After almost three years' exile, Mr Ruiz-Mateos faces trial on what are considered to be two of the more minor charges against him: of inventing fake credits to falsify the accounts of Rumasa banks; and of artificially inflating the value of the group's assets. Since these are the only grounds on which he was extradited from West Germany, other charges, including that of smuggling funds out of Spain, have had to be paid aside.

## Sinowatz faces confidence vote

By Our Vienna Correspondent

AUSTRIA'S opposition People's Party has tabled a motion of no confidence in Chancellor Fred Sinowatz and Mr Ferdinand Lacina, the minister in charge of the nationalised industries, following the crisis at state-owned Voest-Alpine, Austria's largest industrial concern. The motion, however, has little chance of success since the government parties have a clear majority in Parliament.

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## OVERSEAS NEWS

### Patti Waldmeir reports on the severe test set for President Kaunda Zambia faces economic crunch

"THE ECONOMY of Zambia faces an extraordinary challenge that calls not only for more strenuous efforts at reform... but also for special accommodations by Zambia's aid donors and creditors."

The World Bank's 1985 annual report, from which this sentence is taken, singles Zambia out as a major test case for economic reform in Africa, a continent where the combined reform efforts of the International Monetary Fund (IMF) and the World Bank in the 1980s can claim few clear successes.

The advice of these two institutions will clearly be on the line in Zambia over the next few months as the country struggles to carry out an IMF-inspired reform programme which bankers and economists say is one of the most severe in Africa.

The hardships it imposes are extreme, provoking audible discontent in the capital, Lusaka, and presenting President Kenneth Kaunda with one of his greatest challenges since he took office in 1964.

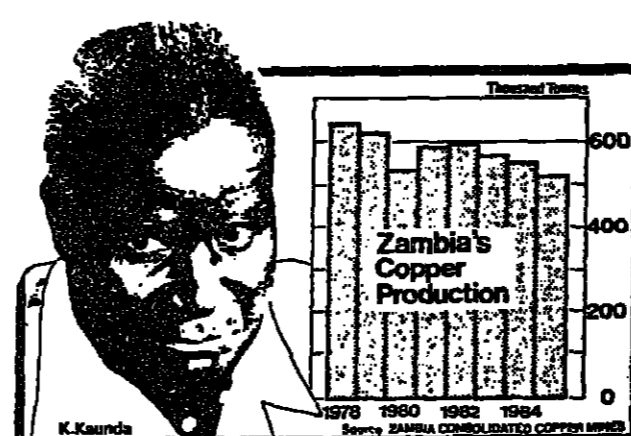
The package, which includes a major de facto devaluation of the currency, liberalisation of imports, cuts in food subsidies and reductions in civil service staffing, has led to sharp price rises at a time when, in the words of Dr Kaunda, the cost of living for ordinary Zambians is already "unbearably high."

The price of maize meal, the staple food, has risen by 50 per cent and transport prices have shot up following a 100 per cent petrol price rise. But such hardships are unavoidable if the country's precipitate economic decline is to be halted, the President says.

With production of copper, which accounts for 90 per cent of export earnings, expected to fall off sharply towards the end of the century as reserves are exhausted, re-orientating the economy away from dependence on mining and towards agriculture is imperative.

Since 1982, President Kaunda has taken major steps in this direction. The socialist character of the post-independence Zambian economy has been profoundly altered: wholesale and retail prices have been decontrolled, food subsidies slashed or eliminated, agricultural producer prices increased to stimulate production, and wages allowed to fall sharply in real terms.

But by early this year, it had become obvious to the government and its international backers that the disease was



K. Kaunda

A team of IMF officials left Zambia at the weekend following nearly three weeks of negotiations with the Zambian Government on a new Fund stand-by credit to support the country's economic reform.

The two sides are understood to be close to agreement on a new stand-by loan of about SDR 100m (£74m) (and a further SDR 60m in funds from the IMF's compensatory financing facility to compensate for unexpectedly low Zambian export earnings from copper).

The credit would replace a SDR 225m loan suspended last year because of Zambia's failure to meet conditions attached to the credit.

proving stronger than the cure. Both the Zambian Government and the IMF and World Bank have been extraordinarily candid in admitting where they got it wrong.

The World Bank in its 1985 report says: "It must be admitted that both the acuteness and the duration of the decline in copper prices were grossly underestimated by all parties: as a result, the scope and character of the policy and institutional reforms that were set in motion were never commensurate with the gravity of the crisis." The result of this failure has been an acute foreign exchange shortage.

Medium-term debt cannot be serviced, despite annual reschedulings and the pipeline of unremitted profits and dividends, and overdue trade payments which amounts to more than \$700m including interest arrears, cannot be cleared. A shortage of inputs has left industry working at only 30 per cent of capacity, and imports of equipment, spares and diesel for the mines are insufficient,

causing copper production to fall about 100,000 tonnes short of the target of 540,000 tonnes. By this time last year, Zambia was under intense pressure from the Fund for a more radical approach and finally, President Kaunda has put the plans of his able Finance Minister, Mr Luke Mwanashikulu, into action.

Interest rates have been decontrolled and the last remaining food subsidy, on maize meal, has been cut, with plans to eliminate it entirely. The civil service is to be reduced in size and expensive perks like official cars are to be restricted.

Most importantly, a more realistic exchange rate for the kwacha (which previously traded at 3 its official value on the black market) has been established through the mechanism of a foreign exchange auction.

The impact of the auction, introduced eight weeks ago, has been immediate and far-reaching. The free auction of about \$5m of foreign exchange each week, much of it provided

by the World Bank, has led to a sharp devaluation of the kwacha, which has varied weekly between K5 and K7 to the US dollar, down from K2.2 to the dollar before the auction started.

The exchange rate determined by bidders at the auction applies to all foreign exchange transactions in the economy, including purchases by Government and state-owned companies (parastatals), placing a heavy pressure on parastatal management to improve efficiency or collapse under a burden of external debt which devaluation has made much more onerous.

Businessmen have welcomed the new system, which eliminates favouritism in the allocation of foreign exchange for imports and reduces the delays and uncertainties which affect planning. Many are now faced with serious kwacha liquidity problems, however.

Union reaction to price rises which have averaged perhaps 60 to 70 per cent across the board on basic items, has been described as "responsible," although the potential for labour unrest in the copper belt, where layoffs are in prospect, should not be underestimated.

Discontent in the capital has so far fuelled only one serious eruption, when security forces used tear gas to quell a near-riot over transport fares. Planned wage rises for civil servants and private sector employees, though smaller than the price increases, are designed to dampen dissent. But the lowest paid workers who earn K80 to K100 per month will still find that purchases of the most basic foods consume all their salaries.

Without radical reforms, Zambia could not hope to gain the crucial IMF stamp of approval which, when secured, can be expected to lead not only to a new fund programme, but also to the urgently-needed rescheduling of medium-term debt.

Nonetheless, businessmen and economists, both Zambian and foreign, say it is difficult to be sanguine about the economy's prospects. Repayments to the IMF for past loans will consume considerably more than the funds available under any new programme.

There appears little scope for a major rise in bilateral or multilateral aid, and any substantial increase in non-traditional exports is several years down the road. In the short term, the already unenviable plight of the average Zambian can only worsen.

### S. Korean protestors ousted from US centre

A student occupation of the US Cultural Centre in South Korea's southern city of Kwangju ended after nine hours yesterday when diplomats called in the police, writes Steven Butler. The nine students—calling for an end of US support for the "military dictatorship" in South Korea—were removed after they reneged on a promise to meet US officials for a second time. Meanwhile, the country's ruling Democratic Justice Party passed the 1986 national budget in Seoul despite a boycott of parliamentary proceedings by the Opposition, which was attempting to link passage with changes in the Constitution.

### Sri Lanka warning

Sri Lankan President Junius Jayewardene has set a year-end deadline for a negotiated settlement of Sri Lanka's ethnic conflict, writes Mervyn De Silva. The Government's objective would change to "the total eradication of terrorism" by military means. Mr Jayewardene told visiting Indian journalists. His remarks were a clear implication that time was running out for India's efforts to act as a mediator.

### S. African confidence

The South African Chambers of Commerce yesterday said its business confidence index (1983=100) rose to 80.6 points in November from 78.0 in October. "Nevertheless," the association said, "business confidence remains at relatively low levels." The rise was attributed to plans for offshore gas development, recent tax concessions, and interest rate cuts.

### Bangladesh strike

A strike over pay and union rights shut more of Bangladesh's industry yesterday, union leaders told Reuters in Dhaka. Port officials said most workers had taken the day off. No serious violence was reported.

### Compensation talks

New Zealand Prime Minister David Lange yesterday said he was unlikely to order a public inquiry into the Rainbow Warrior bombing if compensation talks with France progressed quickly, reports Reuters from Wellington.

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AIR CANADA

## World Bank and IMF urge action on Baker plan

BY STEWART FLEMING IN WASHINGTON

THE International Monetary Fund and the World Bank moved yesterday to try to boost prospects for the Third World debt initiative launched by Mr James Baker, the US Treasury Secretary.

The two multilateral agencies issued what officials described as an unprecedented joint statement of support for the Baker plan.

Issued by Mr Jacques de Larosiere, IMF Managing Director and Mr A. W. Clausen, World Bank President, the statement seems designed in part also to increase the pressure on commercial banks to give the proposal their explicit backing.

"The president of the World Bank and the managing director of the IMF wish to express their strong support for the initiative which, given the urgency of the problems, should be translated into positive and concrete actions as soon as possible," the statement said.

The two institutions "in close collaboration, are ready and willing to play their parts in the implementation of the initiative and to co-operate fully and

constructively with their membership and with all parties in these concerted efforts to deal with debt problems and establish the basis for sustained economic growth," it said.

Officials said that the joint statement should be seen as indicative of governmental support for the Baker plan by the developed and developing nations who are members of the IMF and the World Bank. Mr Clausen is understood to have called a special World Bank board meeting on Wednesday last week to secure endorsement of the statement. On the same day the IMF board also approved the statement.

The Baker plan announced in October at the IMF/World Bank annual meeting in Seoul calls for some \$20bn of net new lending to some 15 developing countries over a three-year period.

Commercial banks are expected to put up \$20bn of this total. Private bankers and developing countries have expressed "great concern" about several elements in the proposal.

## Shultz in call for fresh approach to investment

BY OUR FOREIGN STAFF

US Secretary of State George Shultz yesterday issued a strong call to the developing countries to reduce their hostility to direct investment by the industrialised world.

Speaking to the ministerial assembly of the Organisation of American States meeting in the Colombian city of Cartagena Mr Shultz went on to back the plan for increased international lending to the Third World put forward by Mr James Baker, the US Treasury Secretary, at the International Monetary Fund-World Bank meeting in Seoul in October.

The World Bank and the Inter-American Development Bank, he said, were well placed to complement the continuing central role of the IMF provid-

ing financing and advice to countries taking the essential steps towards structural reform.

Mr Shultz acknowledged that the economic problems of the western hemisphere presented a challenge to democratic government.

The host country, Colombia, has been particularly active in trying to push through changes to the OAS, including the reinstatement of Cuba, and the extension of membership to nations now excluded because of border disputes or other problems.

Both the House and the Senate members would like to see the powers of the secretary general strengthened, and the revival of the OAS as a political force.

## Congress returns to face key battles

BY STEWART FLEMING IN WASHINGTON

PRESIDENT Ronald Reagan faces a succession of potentially far-reaching decisions over the next two weeks on legislation pending on Capitol Hill covering issues which the White House has identified as its top domestic political priorities.

The US Congress had hoped to adjourn in mid-October, but reconvened yesterday amid expectations of a succession of bruising battles over budget priorities, tax reform and farm legislation. These issues will help to share the political background to next year's mid-term elections in which the Republican Party will be struggling to retain its control of the Senate.

The most urgent issue which Congress and the White House will have to face is still unresolved battle over the budget. Before the President left for Geneva Congress passed a temporary increase in the debt ceiling. Now, once again, the prospect of running out of cash, this time by December 12, unless legislation to raise the Federal debt limit is approved.

The debt ceiling Bill is linked to the radical reform of the Congressional budget process, originally sponsored by Senators Phil Gramm, Warren Rudman, and Ernest Hollings, which would require Congress and the President to cut government spending progressively so as to eliminate the \$211bn Federal budget deficit by 1990 or 1991.

A conference committee of the House and the Senate is reportedly close to agreement on a compromise version of the legislation. If it is approved a divided White House will have

to decide whether the President should veto the Bill. Some Administration officials, including Mr Caspar Weinberger, the defence secretary, have warned that the budget reform proposal would result in damaging cuts in the defence budget.

Congress is still struggling to resolve major issues surrounding the current fiscal year 1986 budget and the three year \$276bn budget-cutting package which the Senate and the House of Representatives approved earlier in the year.

Both the House and the Senate for example have approved farm legislation which provides for continued government support for farmers at levels well above those envisaged by both the White House and the congressional budget resolution.

The White House is also facing a decision on the tax reform issue which Mr Reagan, to the irritation of many Senate Republicans, has made his top political priority. Last month the Democratic Party-controlled House Ways and Means Committee came out with its version of the President's tax proposals which call for sharply increased taxes on corporations and relatively more help for the poor than the Treasury's tax plan.

Next week, according to Ways and Means officials, the House of Representatives is likely to vote on this tax plan.

If the President does, as expected, arrive at least mild support for the House tax reform proposal, he can hope that the tax issue will be kept alive and that the Senate will draw up a proposal more to the White House's liking.

## UN finds \$100m in emergency aid for Bolivia

By Hugh O'Shaughnessy  
THE UN has raised \$100m (£67m) in emergency aid for Bolivia to meet the most pressing needs of the newly elected government of President Paz Estenssoro.

The lenders are Venezuela (\$25m), Argentina and Spain (\$20m each), Brazil (\$15m) and Colombia and the Andean Development Corporation (CAF) (\$10m each).

The \$100m will be lent to Bolivia in the form of 120 to 180 day swaps which will give the Paz government time to negotiate similar amounts of longer-term finance to be guaranteed by the emergency aid group.

Mr Javier Pérez de Cuellar, the UN Secretary-General, is hoping to push the final aid total to \$150 or \$200m.

## Former minister in Bahamas on bribery charges

By Nicki Kelly in Nassau

A FORMER minister in the government of Sir Lynden Pindling, Prime Minister of the Bahamas, has been charged with bribery as a result of findings made by a 1984 commission of inquiry investigating drug trafficking and related corruption.

Mr George Smith, who resigned as Minister of Agriculture in October 1984, is accused of accepting \$100,000 (£66,667) from Mr Edward Ward, an American drug smuggler, to remove his name from the Bahamian immigration department's restricted list. Mr Everette Bannister, a businessman and close friend of the Prime Minister was charged with abetting the alleged bribery of Mr Smith.

## Political survival relies on a combination of low inflation and higher growth, reports Jimmy Burns Alfonsin tackles second stage of economic reform

SIX MONTHS after announcing currency reforms and a sweeping freeze on prices and wages to end hyperinflation, the Government of President Raul Alfonsin is poised for a no less ambitious second stage. It aims to put Argentina firmly on the path to economic growth, without sacrificing its achievements so far.

In June, when prices were increasing by an average of 1 per cent per day and industrial activity had ground virtually to a standstill, the Government was left in no doubt that the expansionist policies of its first year of democratic rule had to be temporarily abandoned.

Today, in spite of pressure from the unions and some businessmen, the Government's underlying philosophy is that lower inflation and growth need no longer be mutually antagonistic and, indeed, that its political survival relies on the two being complementary.

Officials are currently putting the final touches to the 1986 budget, which they describe curiously as "not expansionary." The private assumption is that the annual inflation rate will be cut from its current 532 per cent to 30 per cent and that 4 per cent real growth can be achieved now that the recession seems to have bottomed out.

The early success of the June changes, known as the Austral plan after the new currency which replaced the peso, were achieved with little hoarding

or bottlenecks, and without serious labour unrest. They have inspired public confidence in the Government's ability to manage the economy.

Revenue, which in the months previous to the Austral plan had been undermined by widespread tax evasion, has increased by 3 per cent of gross domestic product while curbs on public spending have brought about savings equivalent to 5 per cent of GDP.

The budget deficit has fallen from 12 per cent of GDP to 4 per cent, and next year's budget will aim to reduce this to 3 per cent.

The Government is aiming to maintain a sense of collective sacrifice in a country where successive governments have traditionally awarded privileges to specific social groups. Wage restraint is to be maintained and made conditional on increases in productivity, even though average salaries have fallen by over 15 per cent in real terms since June.

Officials say they will stick to their policy of not printing money to cover the public sector deficit. Tariffs on public utilities will be raised but the increase will be moderate to avoid a resurgence of inflationary pressures.

The scrapping of export taxes will reflect official wishes that demand should continue to be stimulated externally rather than domestically. Revenue is expected to be maintained by



the new forced savings tax on company profits and a land tax aimed at penalising farms which are not producing according to their potential yield.

The clampdown on tax evasion will be reinforced by punitive interest rates on non-payment and more rigorous inspection in the banking sector and stock exchange. Some businessmen and farmers believe such measures may be counter-productive because one tax will be effectively replaced by another.

But the Government has grounds for optimism in that some sectors of industry are taking advantage of the more stable price structure to tighten

Argentina is given on repaying its \$48bn foreign debt.

Argentine officials believe that the initiative announced by Mr James Baker, the US Treasury Secretary, should be allowed to provide the necessary context for success on both fronts. This assumes that future loans would not be made conditional on the Government having to take measures considered contrary to the national interest. The lifting of import tariff barriers, for instance, would leave domestic manufacturers such as car makers dangerously exposed, officials argue.

Key reforms being contemplated however include a major rationalisation of the Argentine banking system following the collapse earlier this year of the Banco de Italia y Rio de la Plata. But closures and mergers involving up to 100 banks in an oversized financial sector may provoke the Government to approach the World Bank for financial support in retraining some of the 20,000 personnel that could be affected.

Argentina does not have a comprehensive social security system and sufficiently large provisions do not appear to have been written into next year's budget for such a rationalisation.

The Government is also looking to international lending agencies to help smooth the

way for the privatisation of a number of failed companies absorbed during the former military regime. Increased private involvement is also planned in infrastructure projects such as gas pipelines and grain silos.

As a result of a continuing drop in commodity prices and recent flooding in agricultural areas, the Government has revised downwards its trade surplus forecast for next year to about \$3bn, compared with the \$4bn estimated for 1985. Officials estimate Argentina's borrowing needs will be similar.

Interest payments of about \$5bn on its foreign debt, equivalent to about 60 per cent of export earnings, have been written into next year's budget and any idea of a moratorium on payments is strongly discounted.

Growing pressure from other major debtors such as Brazil and Mexico will almost certainly mean that Argentina drives a hard bargain with its commercial creditors when it resumes full debt talks in advance of the expiry of its current International Monetary Fund agreement in March.

Officials warn that the 4 per cent growth target is unrealistic without external flexibility. They believe that President Alfonsin cannot count on continuing support for the Austral plan at home without more light at the end of the tunnel from abroad.

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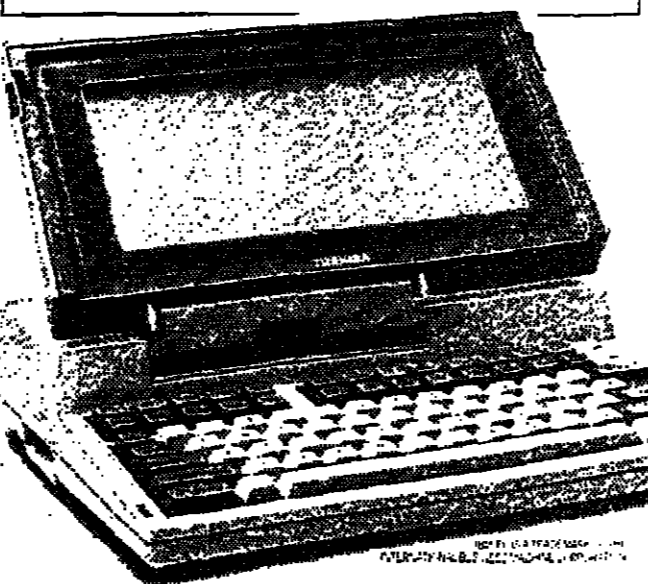
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## WORLD TRADE NEWS

## Austrians draw up finance package for Hungarian dam

BY PATRICK BLUM IN VIENNA

AUSTRIA has agreed to finance the construction of a major dam and power plant in Hungary in return for electricity and for having a major share of the construction work.

A deal, arranged by the Austrian Kontrollbank, has just been agreed with Hungary. Austrian banks will put together a financial package to cover the major part of the estimated Sch 8bn (£305m) cost for the Nagymaros dam near the Czechoslovak border.

Austrian companies will carry out about 70 per cent of the work. A consortium of Austrian banks led by the Creditanstalt Bankverein and the Oesterreichische Länderbank will be formed to put the financial package together.

The deal is part of a project for a network of dams to be built jointly with Czechoslovakia to provide electricity and facilitate navigation on the Danube.

In return for the financing and the construction contracts, Austria will receive 1,200m kilowatt hours of electricity annually from Hungary starting in 1996.

The financing is not a conventional export credit. Instead, the Austrian banks will provide the "Verbundgesellschaft, Austria's national electricity company, with the finance which will then be

## Matra wins FFr 3bn urban transport system order

BY PAUL BETTS IN PARIS

MATRA, the French state-controlled electronics and defence group, has won another FFr 3bn (£225m) order for its automatic urban transport system, VAL (Vehicule Automatique Léger), from the city of Strasbourg.

This is the fourth order in barely five months for the company's high technology transport system. The Strasbourg order follows a \$100m contract to supply Chicago's O'Hare International Airport with a VAL system, a \$12m order from Jacksonville, Florida, to construct an initial experimental VAL line, and a FFr 2bn order from Toulouse in south-west France.

The latest order from Strasbourg has given a further important boost to Matra's efforts to sell its VAL technology.

In Strasbourg, the VAL system was chosen in preference to a tramway system proposed by Alstom, the heavy engineering subsidiary of the French nationalised CGE group.

Matra says the Strasbourg contract has put an end to the difficulties and the question marks on the credibility and future of its automatic transport technology. The company is hoping to clinch several other deals in the US and Europe.

## EEC, US near end of fruit subsidy row

By Paul Cheswright in Brussels

THE US and the EEC are on the point of ending a nagging dispute over canned fruit subsidies that has been a factor in aggravating commercial relations for more than three years.

The main point of the canned fruit settlement is that the EEC will reduce the subsidy to peach processors by 25 per cent from next year. The subsidy is designed to bridge the gap between domestic and international raw material prices.

Final agreement in the next few days — the official negotiations have to be politically endorsed — should help to ease US-EEC tension over a range of agricultural and industrial issues.

A further relaxation of tension would come if the two sides could finally sign a new steel sales restraint agreement. This is held up by the British search for guarantees on the level of sales for semi-finished products on the US market.

Steel industry ministers will meet tomorrow unless the British signal their agreement before then. Nine of the Ten, plus the Commission accept the restraint agreement as it stands.

In 1985 the US asked the General Agreement on Tariffs and Trade to set up a disputes panel on the canned fruits issue. It argued that payment of the subsidy upset competition between EEC processors and foreign suppliers.

The panel broadly accepted this argument last February and asked the EEC to examine how the distortion to competition could be removed. Last October the EEC Council of Ministers asked the Commission to find a solution and the 25 per cent reduction is the response.

Officials noted that the amount of trade is small — US sales of 400 tonnes in 1984 — but that resolution of the argument was politically important.

## China investment

US investment in China, led by involvement in China's offshore oil industry, has reached \$1bn (£114m), the official Xinhua News Agency said, AP reports.

Xinhua, quoting the magazine Peking Review, said that Americans have invested \$150m in joint ventures, \$800m in offshore oil exploration and development, and the rest in other types of business.

## Peter Bruce in Bonn reports on a US challenge to restrictions it views as unreasonable W. German telecom market under attack

WEST GERMANY'S tightly controlled and expensive telecommunications market is expected to come under strong attack in two days of trade talks with the U.S. starting in Munich today.

The talks, offered reluctantly by Bonn last summer after it had become clear that the US regards entry into the West German telecoms market as a potentially serious trade irritant between the two, have been delayed for more than two months by the US to allow its officials to build up their case.

The US believes the West German telecoms monopoly, the Bundespost, is unreasonably restrictive in the range of equipment it allows to be connected up to its transmission system, that it discriminates against non-German suppliers and that its high tariffs are determined politically and bear little relation to the demands of the market.

The German Posts Minister, Mr Christian Schwarz-Schilling, said yesterday that the US concern when he met Mr Malcolm Baldrige, the US Commerce Secretary, in Washington in July. Despite an offer from Bonn to discuss the issue, the Bundespost has subsequently appeared on two US Government lists detailing trade problems which might require action from Washington.

Because telecommunications are not covered by existing trade regulating agencies, the negotiations have to be bilateral. They are also highly sensitive. Some officials in Bonn believe the Bundespost has been needlessly panicked into offering the talks and warn that any concessions on US complaints would lead to a flood of similar pressures from European Community members.

Today's talks are also important, in that the flow of data between two countries is to be discussed as a trade issue. US financial institutions, led by American Express in this case, complain that the Bundespost's technical regulations make it difficult to service customers with computer data economically. Other banks have pointed out that transmission rates on leased lines in West Germany are twice as high as in Britain.

The US delegation, including representatives from industry and the Commerce and State Departments, is being led by Mr H. P. Goldfield and Mr Rodney Joynt, both Assistant Secretaries in the Commerce Department and experts in trade and telecommunications respectively.

Washington is thought to have identified at least six areas for discussion: it is arguing the equipment testing procedures are selective and discriminatory; that the Bundespost, having decided to acquire new equipment, some-



Mr Malcolm Baldrige

times collaborates with selected suppliers (mostly German) on design, instead of remaining neutral; that product standards are seldom clear; that the equipment testing and certification process may be biased towards local suppliers and that the authorities are highly restrictive in deciding what equipment may be connected to the Bundespost lines.

The Bundespost might in any case soon be forced to modify its attachment policy. The European Commission in Brussels is expected to rule on December 16 that users should be free to connect modems of

their choice to Bundespost lines. At the moment, the German authorities allow only a handful of modems to be used, most of them German.

By far the most important US complaint, however, is likely to fall under the heading of "network administration." American users—joined by a host of other European and even domestic users—have complained bitterly about a recent Bundespost decision to introduce volume tariffs on leased lines, affecting mainly large telecoms users. Some users say the new tariff schedule could triple already high telecoms costs.

The Bundespost disputes this and claims that it is merely modernising its charging system to match new technologies. Mr Schwarz-Schilling will today announce details of a new telecommunications plan for the next decade. It will include a formal announcement on volume tariffs—or, as the Bundespost puts it—charging business and private users the same way—a simplification of telecoms regulations and a probable fall in tariff income of more than DM 300m (£50m) a year from 1988.

But the Bundespost is also under great pressure from the West German Economics Ministry and, to an extent, the Technology Ministry to soften its position on cross-border data flows and

while it is unlikely so soon to reverse policy on tariffs, some observers expect it to make concessions on technology.

At present companies transmitting data from the US to West Germany are, theoretically at least, also subject to the Bundespost's technical standards on the type of equipment used on the US side of the connection.

The Germans, who have assembled a team of negotiators from the Bundespost, the Foreign Ministry, the Economics Ministry, the Technology Ministry and two major industry associations, plan to counter the US pressure by arguing that bilateral trade in telecommunications equipment is roughly equal.

US claims that West German suppliers sold \$140m worth of telecommunications equipment in America last year while US companies exported only \$9m worth to Germany were rejected by Mr Schwarz-Schilling in July. Bonn argues that computers are part of the telecommunications network and that US computer producers are among the market leaders here.

The Munich talks are likely to lead to more talks even if they do end with concrete agreement on some points. For the Bundespost, which is under attack inside and outside the country to deregulate, today's meeting could prove the thin end of a big wedge.

## Moscow offers new trade deal to Helsinki

THE NEW five-year plans in the Soviet bloc economies are unlikely to spur the upsurge in East-West trade normally associated with their inception.

The forecast that next year, when the plans are due to start, will see only modest growth in trade between East and West emerges from the latest annual report of the UN Economic Commission for Europe (ECE), the only economic organisation to group countries from both East and West.

Only modest growth is expected because Eastern Europe's exports have slowed and Soviet exports have fallen sharply this year. In addition, none of the Eastern countries wants to, or can, sustain increased imports on borrowed Western money alone.

The ECE is also forecasting that the West's trade deficit with Eastern Europe will narrow.

Nineteen eighty-five was the year, according to the ECE, when Eastern Europe's remarkable export recovery began to falter, after exports to the industrialised West had risen 8 and 16 per cent in 1983 and 1984, respectively.

Smaller sales to the West of fuel, petroleum products, steel and chemicals produced a 2 per cent decline in the volume of East European exports to the West in the first half of this year.

The drop in Soviet exports to the West was more dramatic, 14 per cent in the same period of 1985.

Eastern Europe's imports from the West rose 4 per cent, against the first half of 1984. Increased purchases of Western raw materials and intermediate goods for factory production offsetting lower food imports as a result of better East European harvests in the past two years.

By contrast, food accounted overwhelmingly for the 9 per cent increase in the volume of Soviet imports from the West in the first six months of this year, because of the bad Soviet harvest of 1984.

Siberian oil production problems, and their impact on Soviet export earnings, have been well documented.

But the ECE report highlights the extent to which

## China N-plant contract likely 'in 2 months'

By David Dodwell in Hong Kong

BRITISH and French contractors hoping to build China's first nuclear power plant at Daya Bay in the country's Southern Guangdong Province expect the contract to be concluded within two months, a senior British trade official said in Hong Kong yesterday.

Mr Christian Adams, Britain's Trade Commissioner in Hong Kong, said that contractual and technical disagreements had been resolved, with the only outstanding issue being that of price. The total cost is expected to be about \$3.5bn (£2.5bn).

Negotiations between China and the two main suppliers, Framatome of France and GEC of the UK, began in Peking over five years ago.

They have never been easy, and in recent months have been fraught with brinkmanship with China warning it might invite tenders from other suppliers. GEC negotiators at one point abandoned talks over the supply of the conventional part of the plant and returned to London.

Framatome, the French nuclear power group that hopes to supply the nuclear part of the plant, also reported differences. Its negotiators stayed in Peking, but called for a "pause" in talks. China was then pressing for price cuts of between 20 and 25 per cent.

## East-West trade leap unlikely

BY DAVID BUCHAN

THE NEW five-year plans in the Soviet bloc economies are unlikely to spur the upsurge in East-West trade normally associated with their inception.

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THE WEST'S TRADE BALANCE WITH THE EAST (\$bn)				
	1982	1983	1984 (Jan-June)	1985
With Eastern Europe	-0.3	-1.2	-2.7	-1.3
With Soviet Union	-0.7	-1.0	-2.3	1.7
Total	-1.0	-2.2	-6.0	0.4

Source: UNCEC, Geneva.

Eastern Europe has also depended on petroleum and petroleum-product exports for a major portion of its East-West trade.

Eastern Europe is, however, receiving less crude from the Soviet Union because of the Siberian slowdown, and from the Middle East where many countries have reduced their own purchases from Eastern Europe.

At the same time some oil re-exporting countries in Eastern Europe, notably Bulgaria and Romania, have serious energy shortages of their own.

The caution in the ECE's forecast for East-West trade next year is based on the assumption that, despite the Soviet bloc's 1986-90 plans for higher output and investment rates, its ability to increase imports is restrained by supply and demand constraints on its hard currency exports.

Western Europe takes more than 80 per cent of total Soviet bloc exports to industrialised countries. The ECE, however, sees little change in Western Europe's present output growth rate of 2.5 per cent a year, and therefore virtually un-

changed demand for Eastern goods.

In any case, since the mid-1970s, the East has been losing Western market share of chemicals and various consumer goods, and in machinery and equipment which are relatively more important for the more industrialised East European countries than for the Soviet Union. Only in sales of steel have gains in market share been made, but this trade is heavily regulated in the West.

The result is that the overall Western trade deficit with the Soviet Union and its six East European partners in Comecon, which first emerged in 1982 and rose to a total of \$6bn (£4.2bn) last year, seems to be shrinking.

The ECE forecasts that the West's trade deficit with Eastern Europe will narrow from \$3.7bn last year to around \$2.4bn this year, while its deficit with the Soviet Union could disappear this year.

Comecon countries except Poland and Romania had access to more money on better terms from Western banks in 1985, and generally made more use of official credits guaranteed by Western governments.

## NEC to raise chip export price to US

By Carla Rapoport in Tokyo

NEC, one of Japan's largest semiconductor makers, yesterday confirmed that it will raise the export price of its semiconductors to the US by 20 per cent because of the recent appreciation of the yen against the dollar.

Japanese semiconductor makers have come under fierce attack by US makers who have claimed the Japanese companies have been "dumping" their chips in the US. The issue is currently the subject of a complaint to the US Government by the country's chip manufacturers.

The company said yesterday that the move was partly aimed at heading off further criticism of Japan's huge trade imbalance with the US. The yen's climb against the dollar in the past month has been close to 15 per cent, prompting many companies to increase export prices.

Currently, none of the Japanese chip makers are making much money on their 64K and 256K memory chips because of excess capacity in the market, so a price rise was not unexpected.

Other major Japanese chip makers are expected to follow NEC's lead because most would like to see higher prices and improved margins.

Our Trade Staff writes: Wine and spirit producers from 22 countries, including the Scotch whisky industry, yesterday called on the Japanese Government to reform its system of taxing alcoholic drinks which they claim is a barrier to fair trade.

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The dividends are declared in the currency of the Republic of South Africa. Payments from the United Kingdom office will be made in United Kingdom currency at the rate of exchange ruling on 20 January 1986, or the first day thereafter on which a rate of exchange is available. Dividend warrants will be posted on 30 January 1986.

In the case of non-resident shareholders, taxation of 15 per cent will be deducted. The full conditions of payment may be inspected at or obtained from the London office of the companies or the offices of the transfer secretaries.

Dividends on shares included in share warrants to bearer of West Rand Consolidated Mines Limited, will be paid in terms of a notice to be published as soon as possible after the currency conversion date.

Company	Class of share/stock	Dividend rate	Description	Amount per share/stock unit (cents)	Total for the year (cents)
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Maravelle Consolidated Mines Limited	Ordinary	81	Final	35	—
St. Helena Gold Mines Limited	Ordinary	—	Final	250	450
Suifontein Gold Mining Company Limited	Ordinary	63	Final	150	280
The Groenvald Proprietary Mines Limited	Ordinary	96	Final	95	190
West Rand Consolidated Mines Limited	Ordinary	108	Final	80	102

NOTE: Chemmes Limited, the company in which Suifontein and Buffelsfontein hold an 80 and 20 per cent share respectively, declared a final dividend of 88 million.

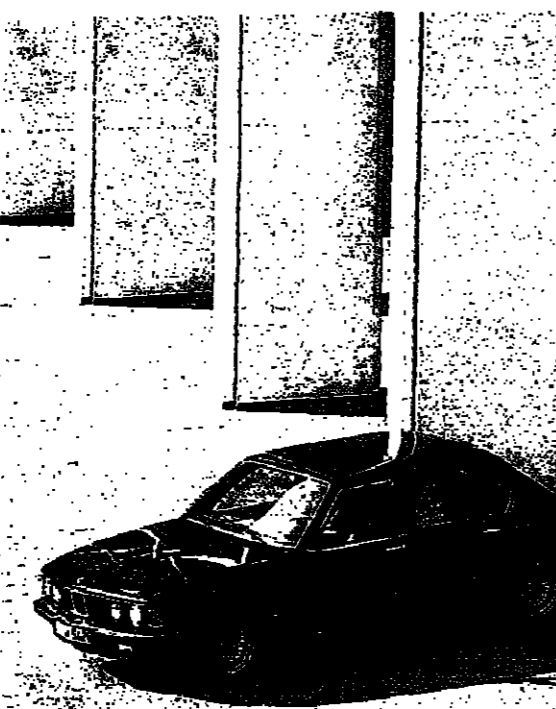
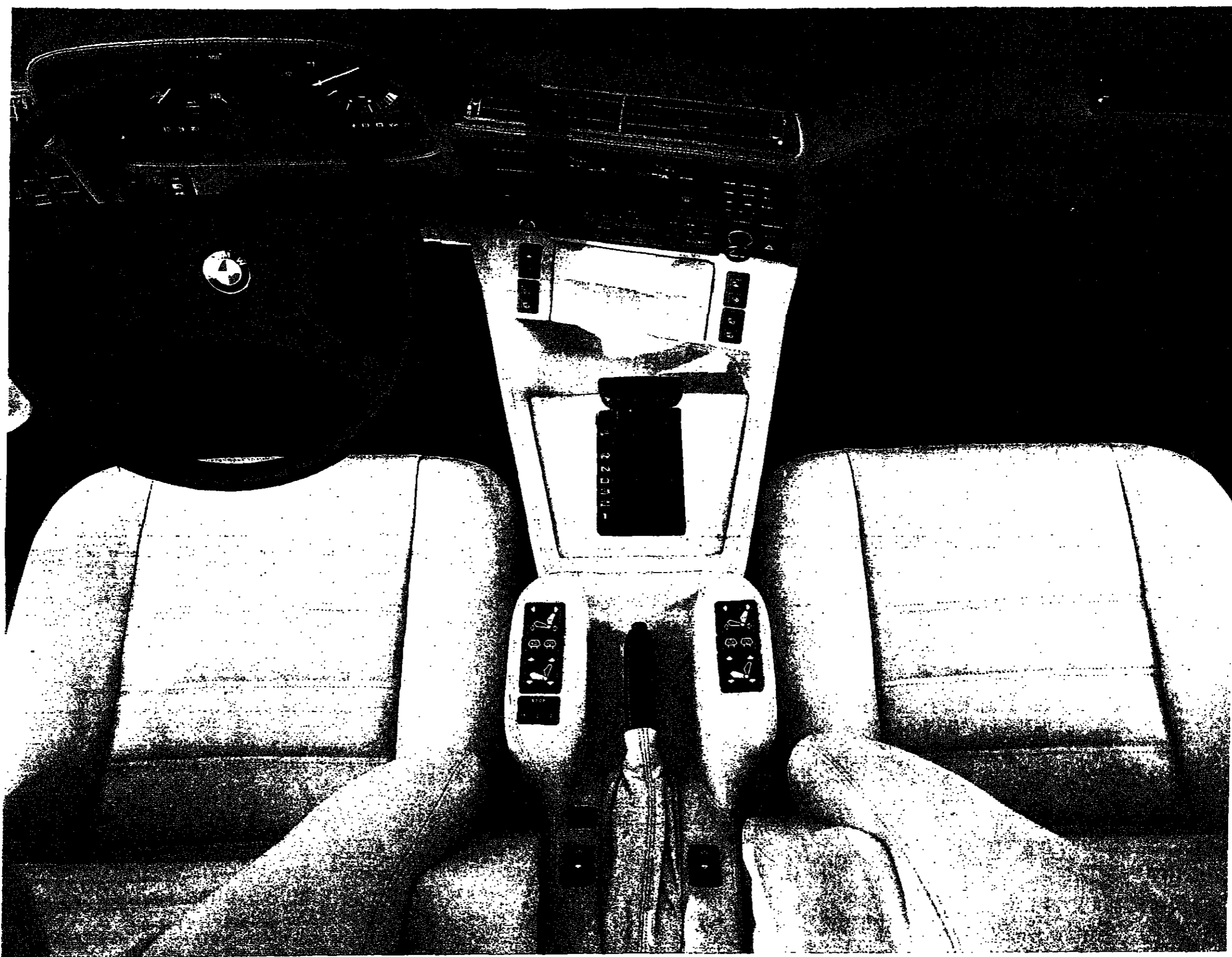
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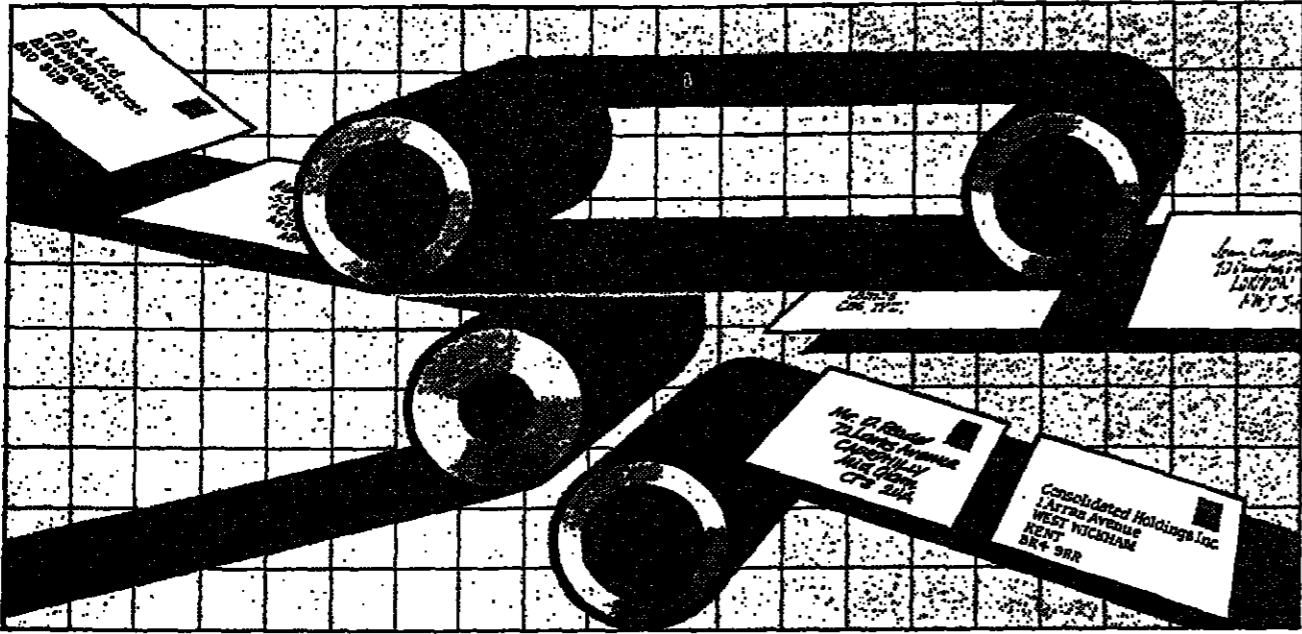
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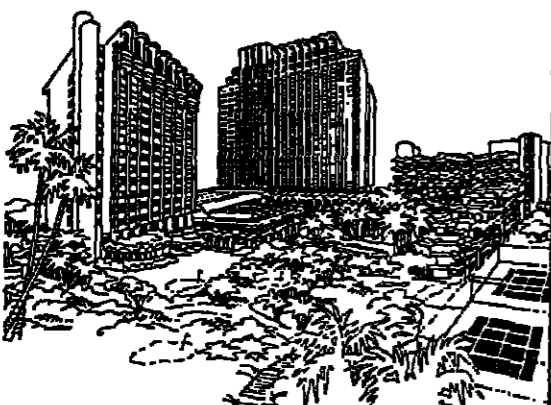
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## Dockyards' opponents try to limit bill

By David Brindle

OPPOSITION to the introduction of commercial management at the Royal Dockyards plan to try to amend the enabling bill to create "impossible barriers" for contractors.

The proposed amendments to the bill, which received its second reading in the House of Commons yesterday, will be designed to strengthen safeguards against control of the dockyards passing into hands inappropriate to British defence interests.

However, Mr Jack Dromey, secretary of the union side of the shipbuilding trades' joint council, admitted that the other aim of the amendments to the bill was to "delay its passage and damage its contents".

One likely amendment will specify a "golden share" in public limited companies set up for the dockyards at Rosyth, east Scotland, and Devonport, Plymouth, with prescribed restrictions on foreign or undesirable interests in operating companies which would take over the share capital.

A second likely amendment will require parliamentary consent for the dockyard franchises and will stipulate that certain information and undertakings be given to Parliament.

The unions and other opponents of the bill believe that contractors are being discouraged from pursuing their earlier interests in the dockyards. At Devonport, it is claimed, only two parties - British Aerospace and a group led by Trafalgar House - are still actively interested out of eight initial potential contractors.

As evidence of growing unease on the Government's part, the unions cite the provision lately written into the bill, for the dockyards to remain fully in the public sector if there were no suitable contractors.

## Britain still undecided over krugerrand ban

By Ivor Owen

SIX WEEKS after Commonwealth prime ministers called for a ban on the import of South African krugerrands, Britain has still to decide what action to take, Lord Lucas of Chilworth, Under-Secretary for Trade and Industry, told the House of Lords yesterday.

Lord Bruce, Labour's chief spokesman on trade and industry in the Lords, and Baroness Seear, leader of the Liberal peers, criticised the Government's tardiness in implementing one of the few measures agreed by the Commonwealth conference as a practical demonstration of opposition to the operation of apartheid.

Lord Bruce questioned whether the Government had any intention of carrying out its original expressed intention to impose the ban. Lady Seear said that the general impression given at the time was that the ban would "come in very quickly".

Lord Lucas explained that the Government was considering what action might be possible "consistent with the UK's wider international obligations." He told Lady Seear, "I cannot answer for impressions gained by other people."

## UK NEWS

# Small businesses seek more trained managers

By William Dawkins

BRITAIN is no longer short of entrepreneurs but small businesses still suffer from a dearth of trained managers, Mr Ronald Cohen, chairman of the British Venture Capital Association (BVCA), said yesterday.

Opening the third Financial Times/BVCA Financial Forum in London, Mr Cohen said: "The problem I and my colleagues come up with most often these days is attracting trained management. Managers in the UK are still undecided whether it is worth the risk leaving the security of big company employment with pension rights and fringe benefits."

The venture capital industry owed much of its growth to the Government's support, but more help was still needed, said Mr Cohen. Among other possible reforms, he suggested that big company executives should be permitted to use their pension rights as collateral for loans to invest in new ventures in which they were involved.

Mr John Moore, Financial Secretary to the Treasury, said the Government was pledged to "a range of measures to improve the quality of the workforce, to lift regulatory burdens on business and to encourage enterprise, which is the key to jobs."

### FINANCIAL TIMES VENTURE CAPITAL CONFERENCE

age enterprise, which is the key to jobs."

The expansion of the British venture capital industry in recent years had been spectacular, but there was still evidence, said Mr Moore, that small businesses found it difficult to attract smaller sums of between £100,000 and £150,000.

He highlighted the role played by the Business Expansion Scheme (BES) in filling that gap. Mr Moore said that 55 per cent of the more than 700 companies which attracted finance under the scheme in 1983-84 raised less than £100,000. Of the £105m invested in the scheme during the period, 40 per cent went into manufacturing ventures.

"This suggests that the scheme has been filling a gap, pushing venture capital into the areas which it

did not reach before. And the risk profile of BES investments appears to be different to the venture capital industry as a whole, with a higher weighting towards riskier high technology investments," said Mr Moore.

His statement will do something to answer many observers' criticisms that the BES has attracted too many relatively safe asset-backed investment proposals at the expense of riskier trading companies.

The Government has just received a report on the scheme, commissioned from accountants Peat Marwick, but will not be setting out its views on any possible changes to the BES until the next budget.

Mr Moore promised yesterday that the Government would continue to support the scheme. "The BES has been a shot in the arm for the venture capital industry and for small businesses in general," he said.

The forum, attended by 160 fund managers, corporate advisers and small business representatives, provides an opportunity for managers to pitch for investment in front of the financial community. Fourteen ventures presented profiles of their operations yesterday.

## Plea to reduce tax burden

MORE INCENTIVES are urgently needed to encourage experienced executives to leave the security of jobs in large companies to manage small businesses, Britain's leading venture capitalists said yesterday.

"Brilliantly innovative products are simply not enough to guarantee success. They must be coupled with the direction of skilled management," said the British Venture Capital Association (BVCA) in its 1986 budget submission, published yesterday.

The association, which represents 85 venture capital groups, called on the Chancellor of the Exchequer, Mr Nigel Lawson, to introduce a range of tax incentives for managers wishing to invest in their own businesses and legislation to reduce the tax burden on on-shore venture capital funds.

It suggested that managers of companies qualifying for the Business Expansion Scheme should be allowed to offset the cost of investing in their own ventures against their taxable income for the three years before making the investment. Similar relief already is available for sole traders.

Managers and staff should also be allowed to sell shares free of capital gains tax for up to five years after their company had started trading, said BVCA, which is also calling for the abolition of the £100,000 limit on the value of shares distributed under an approved share option scheme.

These measures would bring the tax treatment of British executives of new ventures more in line with their counterparts, said the association. It deplored the fact that investments held by UK-based venture capital funds attracted tax twice as high as those made by shareholders when the fund is liquidated.

This meant that most funds had to be established offshore - an expensive and time-consuming process," said the association. One way round the problem, it suggested, would be to make it easier for venture capital funds to operate as limited partnerships, a solution adopted by many US groups.

## Retail slide bigger than estimated

By Michael Prowse

RETAIL SPENDING was more depressed in October than previously estimated, the Department of Trade and Industry (DTI) said yesterday. It also released figures showing that the overall level of consumer credit rose sharply in October.

Volume of retail sales fell by 1.6 per cent in October - more than the 1.2 per cent decline indicated by the DTI's preliminary estimate. The fall followed a 1.4 per cent decline in September. The department's index of retail sales now stands at 114.1, compared with a peak of 117.5 in August.

Officials pointed out that in the three months August to October, the level of sales was about the same as in the previous three months and 4 per cent higher than in the same period in 1984. The weakest retailing sector was clothing and footwear, which experienced a 1 per cent decline in sales in the three months to October and a 5.7 per cent decline between September and October.

The overall level of new credit advanced by finance houses, retailers and other specialist lenders was

£1.15bn in October, 2 per cent higher than in September and the largest monthly total since January. Total advances between August and October were 8 per cent higher than in the previous three months.

DTI officials said there was no conflict between the sluggish retail sales figures and the buoyancy of the consumer credit market. The two sets of statistics did not always move in step, and although total new credit was up, the portion advanced by retailers declined in October.

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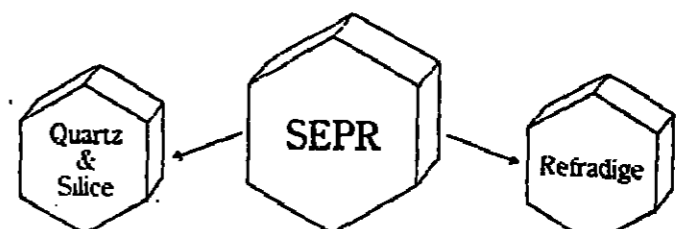
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Net income	123	77	77
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## UK NEWS

John Moore analyses a long-running Lloyd's controversy

## Worry persists over Unimar

SINCE THE end of 1981, insurance underwriters and brokers at Lloyd's, the London insurance market, have been speculating about the events surrounding the so-called "Unimar affair."

It is the one controversy in Lloyd's which refuses to abate nearly four years after an internal investigation was carried out in Lloyd's into the affair. It threatens to become a political issue as some Labour Members of Parliament raise the question of the effectiveness of regulation at Lloyd's.

For nearly three years inspectors appointed by the Department of Trade and Industry have been carrying out an investigation into the Unimar matter. This has been as part of a much wider inquiry into the events leading up to allegations that more than £40m had been misappropriated from the Lloyd's insurance market by Mr Peter Cameron-Webb and Mr Peter Dixon, two former leading Lloyd's professionals.

An interim report has been passed to the office of the Director of Public Prosecutions by the Trade Department inspectors on the Unimar matter.

The story of the Unimar affair began in the late 1970s. From 1978 Mr Cameron-Webb, then a leading Lloyd's underwriter, channelled business of about 1,000 underwriting members of Lloyd's to an insurance specialist company in Monte Carlo called Unimar S.A.M.

The business was channelled to Unimar by Mr Cameron-Webb in the form of reinsurance, via a Lloyd's insurance broker called Seascope.

Reinsurance is used by insurance groups to lay off insurance risks when they feel they do not have the financial strength to carry those risks on their own books.

Reinsurance, in effect, is an insurance policy arranged by insurance groups to protect themselves against onerous losses. In the Unimar link reinsurance was used with rather different aims.

Under the arrangement with Unimar, Mr Cameron-Webb said it was planned that Unimar would receive fees and commissions from Mr Cameron-Webb's underwriting members in return for generating reinsurance business for his two Lloyd's syndicates - number 810 and 808. The syndicates were formed of about 1,000 members of Lloyd's.

Moreover, Unimar would also participate in reinsuring the two syndicates at Lloyd's. The money that found its way to Unimar was to be used at Mr Cameron-Webb's instructions to make payments in the form of "commissions" to attract other business to the syndicates. In Lloyd's it was described as a "slush fund."

The money, however, flowed one way, from the Lloyd's syndicates to Unimar. No business flowed to the syndicates from Unimar. "Unimar were in fact unable to generate the business in the way that had been contemplated," Mr Dixon, chairman of the PCW Underwriting agency, which Mr Cameron-Webb had founded, later told the underwriting members after a Lloyd's investigation.

During the commercial relationship that Mr Cameron-Webb had with Unimar, two employees at Seascope, a broker and an executive responsible for processing the documents, who was also a member of the PCW syndicates, expressed concern about the operation of the contract and the commission payments to Unimar.

The broker who left Seascope complained to the then chairman of Lloyd's, Sir Peter Green, about the operation of the contract with Unimar and questioned why business was being placed with a relatively unknown entity like Unimar.

Sir Peter held his own personal inquiry into the Unimar affair at the end of 1981. He later came under criticism from brokers and underwriters in the market for not establishing a fully independent inquiry. Mr Cameron-Webb had been a former business associate of Sir Peter, working with Sir Peter's Janson Green agency at Lloyd's in the 1960s. Members of Lloyd's argued that to avoid criticism of any partiality, however unqualified, he should not have carried out the inquiry himself.

Sir Peter concluded his inquiries when more than £400,000 of funds belonging to the underwriting members was returned to the syndicates. Mr Cameron-Webb by then had retired from Lloyd's to work abroad and later resigned his membership of the market in 1983.

The affair was later reopened when it was discovered that more than £40m of money belonging to

the underwriting members was missing. Mr Simon Tuckey, QC, has carried out an internal investigation at Lloyd's into the relationship of Mr Cameron-Webb with Unimar.

Mr Peter Miller, Lloyd's chairman, told Lloyd's members earlier this year that Mr Tuckey had confirmed Sir Peter's findings "that there had been no dishonesty" in the Unimar affair.

Mr Miller explained that Mr Tuckey had said in his report: "I do not think that there was any attempt by the chairman of Lloyd's (Sir Peter Green) to cover up anything either before or during the course of his informal inquiry. During the inquiry he asked all the right questions and concluded, rightly in my view, that there had been no dishonesty."

What has worried underwriters at Lloyd's is that the ultimate beneficial ownership of the Unimar company has never been disclosed, and to what extent there were, if any, indirect shareholdings links with business interests of Mr Cameron-Webb.

Unimar also channelled syndicate funds to Switzerland. Underwriting members who have currently mounted legal action in connection with the way their affairs have been conducted in the past by Mr Cameron-Webb and his PCW agency are worried that they have not received a full account of their money.

So far Lloyd's has not published an account of its findings of two inquiries into the Unimar affair. Until it does so the controversy will continue.

## Industrial report by Lords challenged

THE GOVERNMENT yesterday took issue with a House of Lords committee report on the state of Britain's manufacturing industries, writes Frank Gray.

It said the report gave "insufficient weight" to policies which were aimed at supporting the sustained recovery of the economy.

Lord Lucas, parliamentary Under-Secretary for Trade and Industry, suggested that the problems did not amount to a crisis and did not require a plan for action.

He said the fall in the relative importance of manufacturing was not a recent phenomenon. It had happened in other western economies. "Compared with their troughs in 1981-82, manufacturing output has risen by 11 per cent, manufacturing investment by around 25 per cent and manufacturing productivity by 31 per cent," he said.

A REFUSAL to employ three Cardiff-based Somali seamen on the P&O liner Uganda when it was requisitioned for the Falklands war was not unlawful racial discrimination, the Court of Appeal ruled yesterday.

The admitted discrimination against the three was not an offence under the 1976 Race Relations Act, the court said, because it had been contemplated at the time that the ship would not enter British territorial waters.

An appeal by the seamen against a ruling by the Employment Appeals Tribunal was dismissed. They had sought compensation from the General Council of British Shipping, which through its recruiting arm, the Merchant Navy Establishment, finds crews for shipowners.

ANGLESEY ALUMINIUM has given a full-time official of the electricians' union, the EITPU, final say in disputes over implementing new flexibility arrangements. It is part of a wide-ranging agreement negotiated between the North Wales aluminium smelter and the union, which represents 700 process workers.

The agreement, which runs for 18 months, includes an 8 per cent pay increase, cut in hours, new shift rotas, better pensions and the abolition of tea breaks.

## Lawson faces clash on policies

By John Lloyd and David Thomas

MR NIGEL LAWSON, the Chancellor of the Exchequer, is set to clash with both the Trades Union Congress (TUC) and the Confederation of British Industry (CBI) over government macroeconomic policies in general and his autumn statement in particular at the monthly meeting of the National Economic Development Council (NEDC) tomorrow.

Both the CBI and the TUC see the statement as doing little or nothing for industry and jobs. They believe the Chancellor has done nothing to accommodate the criticism made of his economic policies in the recent House of Lords select committee report on overseas trade.

That report said that the Government "should adopt macroeconomic policies which favour manufacturing and trade and are applied consistently" and that the NEDC should be made more effective in industrial questions.

In a paper to be put to the NEDC, the TUC strongly criticises the Government's macroeconomic stance. It asks whether the council agrees that, on current policies, the UK's trade and investment policies will deteriorate in 1986, and whether it agrees that the balance and level of growth could be adjusted to make it more beneficial to UK industry.

It is not yet clear how far the CBI will allow itself to be drawn into a common front with the TUC against the Government. It has already criticised the autumn statement for doing nothing for industry and has conducted a long and increasingly vocal campaign aimed at getting interest rates down.

It is likely to argue again that the appreciation of sterling, and the likely fall in the retail price index over the first half of next year, makes a cut in interest rates more feasible. It will reject the argument that no interest rate reduction can be envisaged until real pay increases come down.

Opinions will also differ over whether the council should discuss the issue of labour flexibility, the other important item on the agenda.

## Union bows to election criticism

BY PHILIP BASSETT, LABOUR CORRESPONDENT

LEADERS OF Britain's biggest union, the Transport and General Workers (TGWU) yesterday bowed to media and government pressure and announced that they are to recommend a change to the union's internal election procedures to bring them into line with the Government's employment legislation.

After years' criticism of the TGWU's procedures for electing its executive council by Government ministers at the weekend and by newspaper campaigns over the past three weeks, the union's executive on the first day of its quarterly meeting decided to call a special

meeting of the TGWU's rules revision conference with the clear aim of securing a change.

The decision is likely to be a watershed in the union's attitude towards the Government's labour legislation, and ministers are likely to seize on it as further vindication of the law.

Mr Ron Todd, TGWU general secretary, said that although the union's policy-making conference had five months ago reaffirmed its opposition to the law, the executive had to act to maintain both the fabric of the union, and its finances.

With direct reference to the legal and financial problems of the miners' union, he said: "They are not going to wound our union."

TGWU leaders were fearful that individual members would heed the weekend call from Mr Kenneth Clarke, Employment Minister, to take legal action against it because part of its executive - members representing particular industries - is not directly elected by the union's membership, as required by the 1974 Trade Union Act.

Leaders of the union had been stoutly defending its practices, but

yesterday's about-turn means that the union's executive will now recommend to a specially convened conference that direct elections should be held for all the executive's 89 seats.

The union's now-likely compliance with the law over its elections will further strengthen the case of those unions - among which, up to now, the TGWU has been prominent - arguing that no disciplinary action should be taken against the AUEW engineering workers and EETPU electricians' unions for accepting Government money to fund their own postal ballots.

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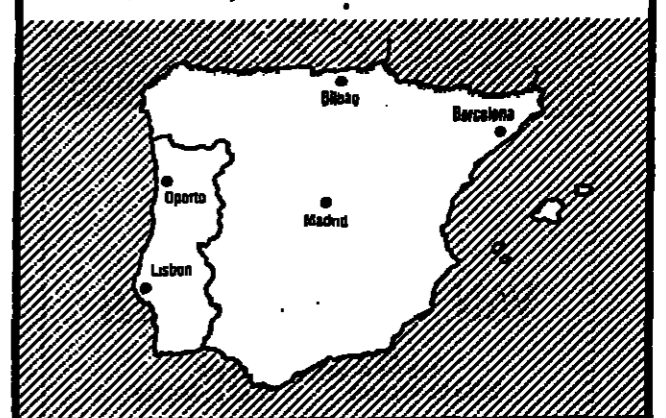
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## UK NEWS

## BASE LENDING RATES

ABN Bank	11 1/2%	Guinness Mahon	11 1/2%
Allied Dunbar & Co.	11 1/2%	Hambros Bank	11 1/2%
Allied Irish Bank	11 1/2%	Hertford & Gen. Trust	11 1/2%
American Express Bk.	11 1/2%	Hill Samuel	11 1/2%
Henry Ansbacher	11 1/2%	C. Moore & Co.	11 1/2%
Amro Bank	11 1/2%	Hongkong & Shanghai	11 1/2%
Associates Cap. Corp.	12%	Johnson Matthey Bkrs.	11 1/2%
Banco de Bilbao	11 1/2%	Knowles & Co. Ltd.	12%
Bank Hapoalim	11 1/2%	Lloyds Bank	11 1/2%
Bank Leumi (UK)	11 1/2%	Edward Manson & Co.	12 1/2%
BCCI	11 1/2%	Meghraj & Sons Ltd.	11 1/2%
Bank of Ireland	11 1/2%	Midland Bank	11 1/2%
Bank of Cyprus	11 1/2%	Morgan Grenfell	11 1/2%
Bank of India	11 1/2%	Mount Credit Corp. Ltd.	11 1/2%
Bank of Scotland	11 1/2%	National Bk. of Kuwait	11 1/2%
Banque Belge Ltd.	11 1/2%	National Giro Bank	11 1/2%
Barclays Bank	11 1/2%	National Westminster	11 1/2%
Beneficial Trust Ltd.	12 1/2%	Northern Bank Ltd.	11 1/2%
Brit. Bank of Mid East	11 1/2%	Norwich Gen. Trust	11 1/2%
Brown Shipley	11 1/2%	People's Trust	12 1/2%
CL Bank Nederland	11 1/2%	PK Finance Intl. (UK)	12%
Canada Permanent	11 1/2%	Provincial Trust Ltd.	12%
Cayzer Ltd.	11 1/2%	R. Raphael & Sons	12 1/2%
Cedar Holdings	12%	Roxburgh Guarantee	12%
Charterhouse Japhet	12%	Royal Bank of Scotland	11 1/2%
Citibank NA	11 1/2%	Royal Trust Co. Canada	11 1/2%
Citibank Savings	11 1/2%	Standard Chartered	11 1/2%
City Merchants Bank	11 1/2%	TCB	11 1/2%
Clydesdale Bank	11 1/2%	Trustee Savings Bank	11 1/2%
C. E. Coates & Co. Ltd.	12%	United Bank of Kuwait	11 1/2%
Comm. Bk. N. East	11 1/2%	United Mizrahi Bank	11 1/2%
Consolidated Credits	11 1/2%	Westpac Banking Corp.	11 1/2%
Confidential Trust Ltd.	11 1/2%	Whiteaway Laidlaw	12%
Co-operative Bank	11 1/2%	Yorkshire Bank	11 1/2%
The Cyprus Popular Bk.	11 1/2%		
Duncan Lawrie	11 1/2%		
E. T. Trust	12%		
Exeter Trust Ltd.	12%		
Financial & Gen. Sec.	11 1/2%		
First Nat. Fin. Corp.	12 1/2%		
First Nat. Sec. Ltd.	12 1/2%		
Robert Fleming & Co.	11 1/2%		
Robert Fraser & Pirs	11 1/2%		
Grindlays Bank	11 1/2%		

## UK motor industry 'Meccano' operation

By Ian Hamilton Fazey

MR JOHN PRESCOTT, the Labour Party's spokesman on industry, yesterday criticised the amount of foreign-made components in British-built cars and said that the UK industry was becoming 'a Meccano operation just involving assembly. Meccano was a brand of toy engineering kit.

Launching Labour's plan for the motor industry at meetings with union officials from Ford and Vauxhall plants, he described the sector as 'strategically crucial to the recovery of British manufacturing'. Failure to do more research, development, design, and manufacture in Britain would affect the ceramics, plastics, rubber and components industries, as well as the emergence of technologies such as robotics.

A Labour government would compel more British manufacturing, while giving financial aid, introducing import controls within Gatt rules and controlling and stabilising the value of sterling to help exports, he said.

Mr Prescott listed Labour's main plans for the industry as:

- More strategic investment in technology, research and training.
- Government assistance to enable BL, the state-owned group, to become a full-range designer and manufacturer.
- Multinationals to increase commitments to manufacturing, rather than assembly, in Britain.
- Backing for Land Rover, Jaguar and Rolls-Royce to invest and increase home and export sales.
- Help for Leyland Truck to make a wider range of vehicles, with public funding of investment to produce key components.
- Harnessing of new technologies by the components industry, with closer relationships between car manufacturers and UK suppliers.
- A stable and more competitive level of sterling to help expansion of both UK sales and exports. This would also help multinationals in Britain to export more than they bought in from abroad.

Mr Prescott dismissed suggestions that jobs lost in manufacturing could be replaced by service industries. Manufacturing used to account for 25 per cent of both gross domestic product and jobs, he said.

## UK and France differ over timetable for electricity link

BY MAURICE SAMUELSON

A SHARP difference of opinion has emerged between the British and French electricity industries about the date for initial large-scale use of the new £760m underwater cables linking their national grids.

Both utilities agree that, after the failure of the initial tests of the system at the end of October, the first trial power flows are now likely to be carried out before the end of December. But they give different timeframes for the start of steady bulk transfers.

In a letter in today's Financial Times, Mr Fred Bonner, deputy chairman of the Central Electricity Generating Board, writes that it is hoped to commission the first half of the 2,000 Mw link before the spring of 1986.

Yesterday, however, Electricité de France (EdF) said that while it hoped that the CEGB would be proved correct, it took the more prudent view that the first commercial transfers of 500 Mw would not be

until March or April, building up to 1,000 Mw by next summer.

"It's only a difference in our appreciation of how long it will take," said Mr Manuel Polyatos, head of the EdF's commercial department. "There is no difference in the wish of the two countries and no disagreement or divergence. We will be very glad if the CEGB is right and we are on 1,000 Mw at the beginning of the spring."

"I hope that the CEGB will be proved right. But it is not enough to hope. It depends on solving the technical problems."

Although both EdF and CEGB have played down their differing estimates, it is believed to be causing some confusion among the UK electricity industry's long-range planning staff, who are basing their forecasts on the CEGB statement.

It has also been brought to the attention of the House of Commons select committee for energy, to which Mr Bonner and Mr Philip Jones, chairman of the Electricity

Council, the industry's umbrella body, reported two weeks ago about the progress of the link across the English Channel.

The crux of the difference between the two sides is the extent to which cheap imported power from France will help to meet the demand in Britain over the coming winter.

The CEGB appears to have been hoping that the link would be in use before the coldest part of the winter, which usually occurs in January or February. To judge by Mr Polyatos's more cautious remarks, this seems doubtful.

There is no question of British electricity supplies being endangered by any delay in the French connection. As Mr Bonner notes in his letter, the electricity transfers will be bought on an "interruptible" basis and cannot therefore be considered as part of Britain's electricity supply capacity.

Letters, Page 17

## French tool maker eyes UK market

BY LORNE BARLING

MACHINES Francaises Lourdes (MFL), the heavy machine-tool company formed in 1982 out of four ailing French manufacturers, aims to capture up to 25 per cent of the UK market in the next three years.

The company's plans were outlined in Coventry yesterday by its president, Mr Louis Tardy who also warned that British state aid to Japanese machine-tool manufacture in the UK was "a grave mistake."

He said that French government assistance in forming MFL had proved very successful, with break-even about to be achieved this year on a turnover of FF 902m (£53m).

Major shareholders in MFL are the French Government and important customers such as Dassault, Renault, Saucma and Aerospatiale. The company has recently purchased Goldsworthy Engineering of the US, the specialist in composite materials machines.

Mr Tardy said that the company recently had won important contracts in Britain from GKN Sankey and Austin Rover and regarded Britain as one of its prime targets for growth.

He believed that the British machine tool industry had missed the opportunity to amalgamate and that the Japanese were poised to dominate the world market for standard machine tools.

He claimed that MFL, which had recently invested £18m in its plants at St-Etienne, Albert and Capdenac, was now among the most modern manufacturers in the world.

Each facility was linked by integrated computer-aided design systems and the total workforce had been reduced from 2,500 people in 1981 to 1,120.

Mr Tardy said heavy investment had been made in worldwide marketing with an increase in staff abroad, regarded as essential to improve sales and servicing. MFL now held about 50 per cent of the French market and was increasing its world share.

The company, formed from Berthiez, Lyon, St-Etienne Machine Outil and TMI Forest, had considerable advantages in the range of machine tools it made, he added.

## New chief for Pilkington high-tech unit

By David Fishlock

SIR ROBIN NICHOLSON, the Government's chief scientific adviser for four years, is to join Pilkington, the diversified glass group, as chief executive and chairman-designate of its advanced-technology division.

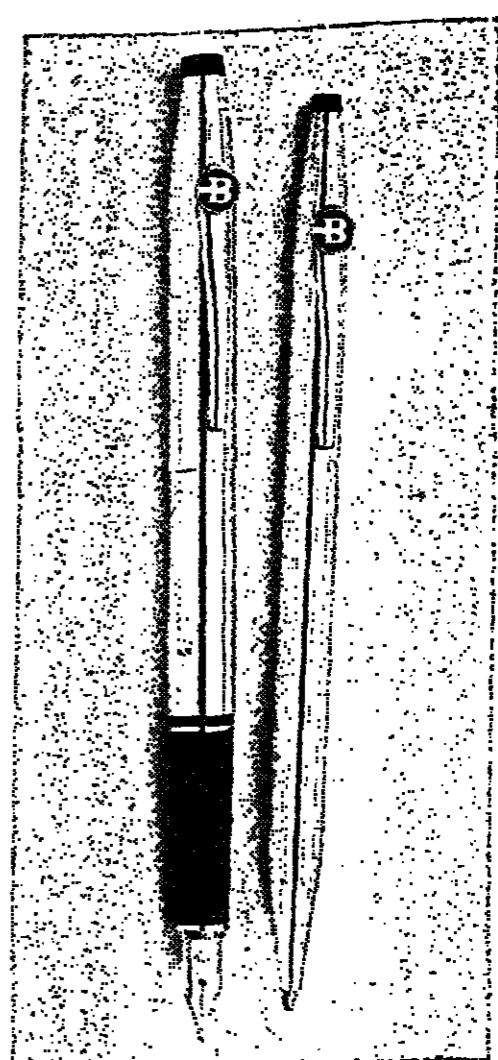
Pilkington's electro-optical division is the company's fastest-growing sector, with a turnover of £50m last year.

The company, with sales worldwide of £1,225m, has said that it is looking to electro-optics for a substantial part of its future earnings.

The division spans defence, industrial and medical uses of electro-optics, which marries the latest electronics to new optical techniques such as laser holography.

At the Government's suggestion, Sir Robin, a metallurgist, was seconded by the Canadian mining group Inco to become chief scientist to the Cabinet Office "think tank" and science adviser to Mrs Margaret Thatcher, the Prime Minister.

The "think tank" was disbanded but Sir Robin's services were retained and he built up a strong science secretariat in the Cabinet Office.



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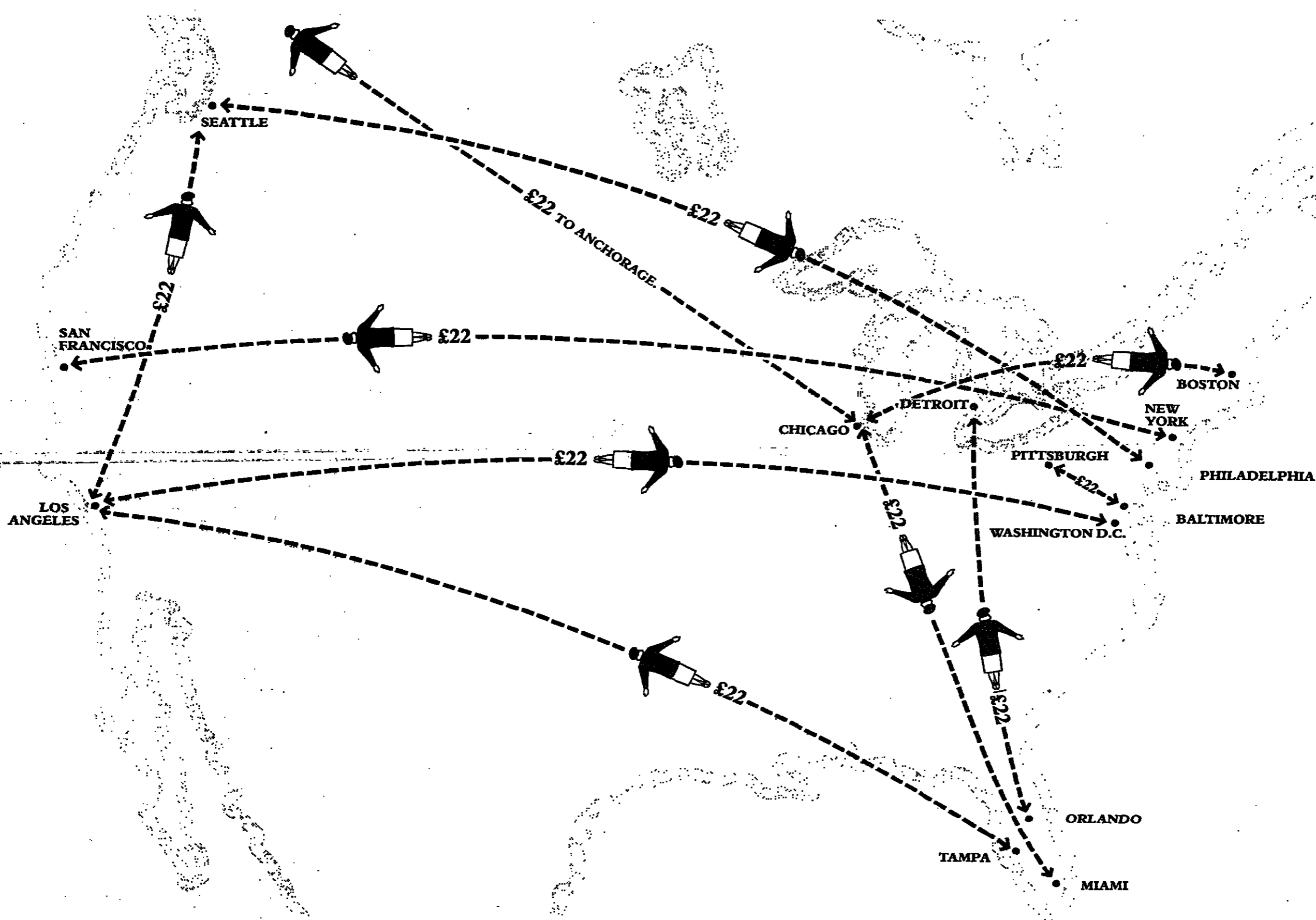
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# THE MANAGEMENT PAGE: Small Business

EDITED BY CHRISTOPHER LORENZ

## Corroless International

### Painting an independent scenario

William Dawkins on the buy-out of a specialist offshoot from a chemicals trader

"TWO YEARS ago, the first things we would look at in the morning post were the orders. Now we open the cheque first."

That impression of how making the switch from employee to business owner can change one's priorities comes from David Tandy, 32-year-old managing director of Corroless International, a Basingstoke-based supplier of anti-corrosion paints and powders and high performance lubricants.

Tandy and his two colleagues, Peter Stockley and Philip Robertson, paid £650,000 at the end of last year with the help of Fountain Development Capital, the Hill Samuel offshoot, to buy their fast-expanding business from Chemincorp, a medium-sized chemicals trader based in Mitcham.

The company's worth has since grown to £2.5m, according to a recent valuation by accountants Peat Marwick Mitchell — and with sales set to double from £1.5m to £3m in the current year to next June, Corroless is running well ahead of the team's most optimistic hopes.

In the process, Corroless' directors have come to recognise some of the practical benefits of having an experienced venture capitalist on hand to help tackle the challenges involved in exchanging the protection of a corporate parent for an independent existence.

The personal strains of making that transformation can be considerable, as was underlined by the tragic death in August — at least partly caused by overwork — of Robertson, the sales director.

Corroless began three years ago when Chemincorp purchased the world rights for a range of rust stabilising paints from Corns Greiner, the German company which developed the products.

UK demand for Corroless' anti-rust paints grew rapidly like cheaper equivalents produced in bulk by much larger companies like International Paints or Berger, they could be applied directly onto corroded surfaces, so avoiding the need for expensive shot-blasting. This is particularly useful for wet and dangerous structures like North Sea oil rigs.



David Tandy (left) and Peter Stockley: sales set to double this year

Sales accordingly rose from £200,000 annually to £311,000 during the two years to June 1984. But Tandy felt that his market in the steel construction and oil industries was still under-exploited. With a little investment, Corroless could do even better, he believed.

Chemincorp was less convinced by his pleas for money. It saw itself primarily as a chemicals trader and did not want to get too deeply involved in manufacturing, even though all of Corroless' output was and still is sub-contracted.

A business contact put the frustrated Tandy and his colleagues in touch with three City of London venture capital groups. "We had never even heard of a buy-out until then," Tandy recalls.

The terms they were offered were roughly similar, so the team took mainly non-financial reasons into account when they accepted Fountain's offer of £150,000 for 47 per cent of the equity, plus a £450,000 loan, with the management getting 53 per cent of the shares for £50,000. "They knew what we wanted to achieve and we just liked the way they responded to us," says Tandy.

The hardest part, he says, was the five months spent negotiating the deal with Peter Lawrence, Chemincorp's managing director. Unusually for a management buy-out, Fountain did not act as an intermediary between manage-

ment and vendor. That was because Lawrence had been receptive to the idea of a buy-out right from the start.

Even so, "negotiating with your boss is one of the hardest things you can do," says Tandy. "You know that if you blow it you have nothing to fall back on."

Indeed, Tandy nearly did blow it when a large quoted industrial group came in with an offer for £1m at the last minute. But the counter bid failed because it was conditional on the support of Corroless' management — an indication that not all the cards are stacked on the vendor's side in a management buy-out.

By September last year, the suspense was over, so the trio took out second mortgages on their homes to put up their portion of the purchase price. All three took an immediate 25 per cent drop in after interest income because of the increased mortgage payments.

The next challenge was how to engineer the move to Corroless' new office in Basingstoke without interrupting the flow of orders from the company's 30 distributors worldwide. Accounts and credit control had until then been handled centrally by Chemincorp.

"The whole thing used to be done for us, so we had to start from scratch," Stockley, Corroless' 30-year-old commercial director, says. "It is all too easy under those circumstances for directors to become so overwhelmed by de-

tail that they lose sight of the need to sustain the momentum of sales. In this respect, Stockley and Tandy agree that Anthony Whitaker, a former director of Guinness Peat, the financial services company, who was appointed their non-executive chairman by Fountain, has been well worth his £47,000 annual fee.

"He is our conscience," Stockley says. "He makes us feel that we cannot have a board meeting without making sure that we have achieved what we said we would in the last board meeting."

Whitaker has also played an important part in arguing the team's case to Fountain earlier this year for a £100,000 increase (representing a 20 per cent rise) in its sales and marketing staff budget. "He had to represent Fountain as his masters, but equally he had to represent the company and his fellow directors, that was important to us," Tandy says.

All the same, having a non-executive chairman represents an important cost for a business of Corroless' size. Additionally there was the £35,000 paid in lawyers' and accountancy fees for arranging the buy-out.

David Osborne, Fountain's investment director, points out: "It is not cheap to deal with a venture capital organisation. You just have to weigh up the benefits." Tandy, however, is certain that Corroless would have been unable to get back on its feet without the venture capital industry. The fact that its only assets were its people made it unsuitable for bank borrowing.

Another important lesson he has learned from the experience is that managing an independent company requires different skills from managing a subsidiary of a larger group. Until recently, he attempted to do the job both of a marketing and a managing director. "I did not realise that being managing director was a job in itself," Tandy says.

His point about not taking on too much responsibility was sadly driven home by the death of Robertson, whose (albeit expanded) job is now being handled by two newly recruited specialists for each service as was the case under the former regime.

## Entrepreneur heed thyself

William Dawkins explains why an owner can be his own worst manager

THE BIGGEST problem that a growing company can face is having a full-blooded entrepreneur as its owner.

That paradoxical but valuable thought is put forward by Manfred Kets de Vries, professor of management at Insead, the international management school at Fontainebleau, in the latest issue of Harvard Business Review. All the virtues popularly associated with entrepreneurship — like obsessive perseverance, a lust for control, dogged devotion to detail and imaginative flair, have their dark side, he warns.

Any small business manager or venture capitalist who can recognise and tackle the black side of entrepreneurship will be all the more successful for it, says Kets de Vries, sounding a theme that will find echoes among the many small companies that find it hard to make the changes in management required to sustain the pace of growth.

Interviews with 38 North American entrepreneurs convinced Kets de Vries that many of them were misfits who found it impossible to submit to authority and were in business partly because they needed to create and control their own environment. Those qualities are certainly essential to getting a business idea off the ground, but all that creative energy can easily have its source in destructive personal needs that can ruin a company in its later stage of development, argues Kets de Vries.

He cites the example of the owner of a \$20m turnover computer products company who insisted on opening all mail directed to the company and

personally approving every item of spending. His subordinates admired him, but resented being treated like children. The result? "Good performers did not stay," says Kets de Vries.

Closely related to the need for control is a tendency to be suspicious of others, he argues. Another manager in his sample was so paranoid that he kept television cameras monitoring the back and front entrances of both his plant and office buildings, with screens mounted on his desk. Suspicious like that are often founded in reality, yet points out Kets de Vries: "The person who manages this way forgets the price the company pays in deteriorating morale, low employee satisfaction and declining productivity."

Inevitably, many entrepreneurs live under great stress. One consequence is that they tend to see things in extremes when dealing with other people — and this can be counter-productive, says Kets de Vries.

One manager, for instance, made a point of hiring young MBAs, whom he would then hold up as exemplars of management skill to other staff. This built up resentment among less

favoured employees. The entrepreneur's infatuation with his new recruits would soon exhaust itself and swing to equally intense disappointment, with the result that the MBAs would leave.

When the same man went on to sell his venture to a larger company, he took similarly extreme views of his new owners. Preliminary infatuation vanished when he received requests from group headquarters for more information about an advertising campaign. The new owner changed from hero to villain overnight and the entrepreneur was eventually asked to leave because he withheld information.

Can it ever be possible to control the dark side of entrepreneurship and persuade these volatile managers to accept a disciplined corporate existence? Up to a point, says Kets de Vries.

Managers do not have to be unbalanced to be entrepreneurial; it is just that entrepreneurs are filled by a "mix of creative and irrational," he argues. A deal that is structured to cope with that mix of qualities has a higher chance

of success than would be the case if a venture capital investor or corporate buyer simply tried to impose management disciplines on a small business.

An illustration is provided by the president of a conglomerate who worked hard to build mutual trust with a small business it was considering acquiring. The president promised the entrepreneur to let the entrepreneur run his own show as long as he provided a certain amount of information. They also agreed that the entrepreneur could call on the new owner for assistance at any time.

The conglomerate's president soon found that the entrepreneur was using him regularly as a sounding board, which in an atmosphere of trust, enabled him to inject a healthy dose of reality into some occasionally high flying schemes. "This loose-tight arrangement turned out to be very successful. The acquisition became one of the most profitable in the conglomerate's portfolio of companies," says Kets de Vries.

The moral is that instead of fighting entrepreneurs' idiosyncrasies, venture capital investors or corporate buyers should regard developing them as a challenge, he says. However, Kets de Vries has no advice for those entrepreneurs who do not have the assistance of venture capitalists or large corporate shareholders. At the very least, his findings imply that they might benefit from a spot of self-examination.

*The Dark Side of Entrepreneurship*, reprint 85608, Harvard Business Review, November-December 1985, PO Box 25, 3550 AA Maastricht, The Netherlands.

## In brief...

KMG Thomson McLintock is the latest accounting firm to announce a concentrated push into the small business market.

The firm has reorganised its services so that the full range of accountancy advice on subjects ranging from Value Added Tax to raising finance can now be obtained under one roof.

Peter Hogarth, former audit partner, this week becomes national director of business services, an organisation with 312 staff in 22 offices throughout the UK. Client managers will deal with all services that small businesses are likely to need, rather than passing on customers to individual specialists for each service as was the case under the former regime.

Details from Peter Hogarth,

KMG Thomson McLintock, 70 Finsbury Pavement, London EC2A 1SX. Telephone 01-920 9111.

HOW TO price venture capital deals is among the subjects to be covered in a venture capital conference to be held on January 14 at London's International Press Centre.

Tickets cost £200 plus VAT and the conference is jointly organised by the Institute of Chartered Accountants in England and Wales with the British Venture Capital Association. Other subjects include helping small businesses survive, what venture capitalists want from accountants and bankers and the role of debt and equity finance.

Details from Beverley Barred at the ICAEW, Chartered Accountants' Hall, PO Box 432, Moorgate Place, London EC2P 2BJ. Telephone 01-628 7060.

A BEGINNERS' guide to self-administered pension schemes for small businesses is available on a 30-minute cassette produced by Horneback Mitchell & Co, the Leicester-based insurance brokers.

Cassettes can be obtained by sending £2 to Steve Horneback at 4-5 Upper King Street, Leicester LE1 6XA. Telephone 0533 542659.

NEW Enterprise Development, a Battersea-based business training group, is running a 17-day course spread over the six months starting in January for profitable ventures seeking to expand.

Sponsored by the Manpower Services Commission, the course costs £250 and is open to businesses in the south and west London. Participants will be assisted with their own expansion projects, with advice on marketing, finance, re-

search and management. De details from Peter Wilson, New Enterprise Development, 13 Park House, 140 Battersea Park Road, London SW11 4NB. Telephone 01-627 4991.

AN EASY-TO-USE daily accounts book for small shopkeepers is available from Peter Levene, author of *How to Start and Run Your Own Shop*, published by Graham and Trotman.

The book costs £5.98 and includes enough forms for a year's accounting, with weekly and quarterly reports. It is designed to contain all the Value Added Tax information that a Customs and Excise officer would expect to see. Copies can be obtained from Peter Levene, 43 The Cliff, Roedean, Brighton BN2 5RF. Telephone 0273 605696.

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Tuesday December 3 1985

## A church not very militant

THE LADY'S spokesmen do not protest too much. For the second time in recent months, ministers have tried to confront criticism by rebuffing it before it is actually published. The Institute for Employment simply enjoyed more publicity than its rather oversimplified attack on the Government's economic policy would otherwise have enjoyed. The attack on the Church of England report on the problems of cities, which will be officially published later today, is likely to be more damaging — to ministers. It is so intemperate that it simply gives the impression that they are rattled.

The first fact that may surprise those who will have heard the row, but are unlikely to read the report itself, is that its prime target is the Church itself. The overwhelmingly middle-class clergy of the Church of England are ill-equipped by upbringing or training to tackle the problems of deprived minorities in Tosteth or Tottenham, and the report bitterly acknowledges the fact. It would be impertinent for us to comment on the many remedial steps which are suggested.

The only one which could raise any political hackles is that the clergy should speak out more on political and social questions where they feel that Christian values are involved. What priests with direct experience of social deprivation have to say may be uncomfortable, but is hardly a threat to the separation of Church and State. The Bishop of Liverpool would already be regarded as a threat to the constitution. Most people, even non-believers, surely expect religious leaders to be outspoken on moral issues.

## Gonzalez climbs off the fence

MR FELIPE GONZALEZ has worked himself into an awkward and potentially dangerous position on the issue of Spain's membership of the North Atlantic Treaty Organisation. The Spanish Prime Minister has pursued a courageous economic policy, he has successfully completed negotiations for Spanish entry into the European Community. But on Nato he has shown a lack of clear leadership.

During the electoral campaign of 1982 the Socialist Party, led by Mr Gonzalez, undertook to submit the question to a referendum, evidently expecting such a referendum to go against remaining in the alliance. As Prime Minister, Mr Gonzalez pulled Spain out of Nato military interaction. He has since shifted from his initial opposition to membership in the alliance.

But given the strength of anti-Nato, or rather of anti-American feeling on the left and the isolationist traditions on the right, Mr Gonzalez appeared to try to wriggle out of holding a referendum. Only last week he was constrained to admit that the referendum should be ahead of March.

It is important for Spain and for the West as a whole that there should be no further attempt to fudge the issue, and that the referendum should result in a clear vote in favour of remaining in the alliance.

ONE of the world's leading public service broadcasters is facing difficult days. The licence fee is less than the organisation needs. Staff numbers will have to be cut, competition with commercial television is intense and a government inquiry is unlikely to make life easier.

The speaker is not a beleaguered member of the BBC staff facing up to the rigours of the Peacock Committee now looking at feasibility of alternative methods of financing the BBC. His name is Mr Konoike Ohtsu, a senior planner from NHK (Nippon Hoso Kyokai), the Japanese public broadcasting corporation, and the information he is now collecting on broadcasting developments in Europe will probably be included in NHK's evidence to the Japanese Government inquiry expected next year.

There is much about NHK that is distinctively Japanese. The ¥1040 (about £3.25 a month) licence fee is "voluntary" yet about 90 per cent of the population pay — with the help of 1,000 staff collectors who turn up on the doorstep of reluctant cases to try to convince them.

Yet the increasingly difficult environment in which the once sacrosanct NHK now has to operate — 1,800 jobs are due to go over the next few years — is shared by five commercial rivals in the big cities — has parallels in many developed countries.

● The reluctance of governments in an age of financial stringency to sanction large licence fees or grant increases ● The apparently relentless march to free television channels financed by advertising. In Europe only Denmark, Sweden and Norway have maintained the barriers against national television advertising, and in all three they appear to be crumbling.

● The explosion of choice already starting to come from cable and satellite television, much of it paid for advertising, which threatens further to undermine the justification for licence fee systems and to increase political pressure.

● The fact that the European Government-appointed task force looking at the future of broadcasting is due to report on January 15 and that the commission is also under way in New Zealand. In many European countries, governments are considering introducing "private television" where once national public service broadcasting organisations reigned supreme.

In Britain, the terms of reference of the Peacock Committee are more limited: to look at the advantages and disadvantages of all possible alternatives to the licence fee as a method of all possible alternatives to the licence fee as a method of funding the BBC and the effect of any change on the public service.

At the start of their takeover struggle yesterday both Argyll and Distillers set out to show how very much their hearts are really in Scotland. The two groups are away on business much of the time.

Along with traded insults over share prices and management styles, the two groups are keen to show what they will do for the Scottish public interest.

Argyll yesterday neatly questioned the pedigree of Distillers' head office in Edinburgh by sending details of its bid offer to Distillers' London office in St James Square — where Argyll said it thought the company's activities were centred.

## Paying for television: advertisers dominate the picture

Professor Alan Peacock's committee on funding the BBC has almost finished taking evidence. In the first of a series of articles on the future of broadcasting, Raymond Snoddy discusses the financial pressures on world-wide TV networks

ment grant or advertising or various mixtures of all three. In France where the three main channels are financed by a mixture of licence fee and advertising (the latter accounts for about a quarter of revenues), the more competitive future became clearer last month. President Mitterrand not only chose the investors who will run France's first commercial television network but made it clear that Mr Robert Maxwell is to have an advertising-supported channel on the French direct broadcast satellite which can cover much of Western Europe.

In Germany where the national broadcaster ZDF and ARD receive about £1.16bn from the DM18.25 a month licence fee and about £464m from advertising blocks shown in the early evening, the traditional broadcaster face growing competition. Apart from cable and satellite, there has been pressure for the introduction of local private television.

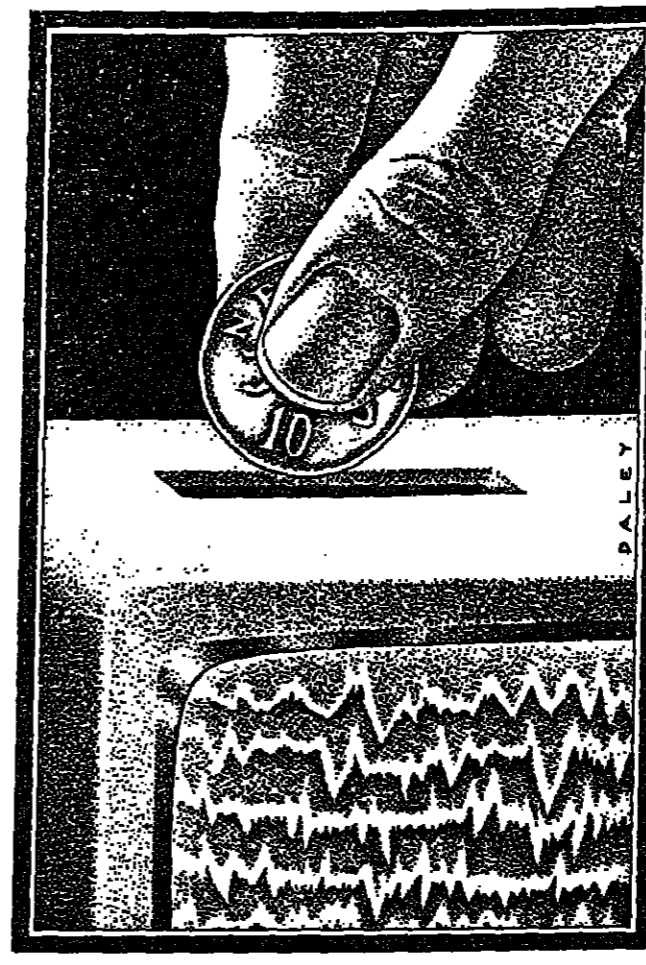
Recently Prof Peacock had discussions in Munich with Mr Albert Schaff, president of the European Broadcasting Union and deputy director general of the Bavarian Broadcasting Corporation which gets 18 per cent of its income from advertising.

Mr Schaff told Prof Peacock that the German experience had no direct competition for advertising revenue. If there were any plans to introduce extra advertising, he thought it would weaken the licence fee as a method of financial support, he would oppose it.

The arrival of Sky Channel, Mr Rupert Murdoch's general entertainment channel delivered by satellite to European cable networks, is having a dramatic effect in those countries which still block television advertising.

One observer noted that the trend elsewhere, however, merely serves to reinforce Mr Milne's personal conviction that "it is a good thing" to have alternative television channels which are not interrupted by advertisements.

"We have stumbled upon an extraordinarily elegant solution to the problem of financing broadcasting. The two systems have stood apart in terms of their funding and that is why the system works so well. Change it and the delicate



balance would be destroyed." The BBC director general argues. Mr Milne's fears about the dangers of introducing just a little advertising on the BBC seem to be supported by the recent history of broadcasting in New Zealand.

The mixed system of financing there involved a licence fee and advertising three days of the week and six minutes of advertising an hour. The licence fee of NZ\$45 (£17.30) for colour and NZ\$30 for black and white was last set in 1975 and succeeded.

Corporation (ABC), financed annually from the Government consolidated fund, already faces severe competition from three commercial networks and minority language programming, and has to be content with an audience share of between 12 and 15 per cent. Over the past 10 years, Mr Keith Mackrell, ABC's European general manager, says the Corporation's funding has declined relative to the resources of channels 7, 9, and 10 dominated by the newspaper interests of the Fairfax group. Kerry Packer and Rupert Murdoch.

In this year's settlement, ABC asked the Government for AS\$12m (£190.7m) and got AS\$95m. "We pared our bid to the bone and put in what we thought was a fair claim. The worst happened and it was cut anyway," Mr Mackrell says. Between 300 and 500 people are now leaving the organisation following a reappraisal of staff needs.

The Canadian Broadcasting Corporation (CBC) not only faces competition from Canadian commercial opposition CTV and Global, but also from the American networks across the border picked up from both terrestrial transmitters and satellites.

The terms of reference of the Canadian task force indicate the complexity of the problem. Its aim is to suggest ways of giving Canadians greater choice "within an environment which is attractive to private entrepreneurial investment while still achieving our cultural goals for the Canadian broadcasting system."

Mr Pierre Juneau, president of the CBC, believes the organisation is achieving that goal by making quality Canadian programmes within tight financial restraints. "I think we are succeeding in news, public affairs and sport," Mr Juneau says, but concedes that drama is more difficult. Canadians spend about

22 per cent of their time watching CBC, 46 per cent watching other Canadian channels and 32 per cent watching American channels. CBC raises about 20 per cent of its C\$10n income from advertising.

The last government grant meant that 1,150 jobs at CBC had to be abolished and 350 people were actually fired. Despite the financial constraints, CBC has been increasing the Canadian content of its schedules to about 75 per cent. "We don't mind having some advertising but we would prefer fewer interruptions in our programmes," added Mr Juneau who points out that advertising minutes have risen from about eight an hour to 10-11 minutes.

Mr John Howkins, executive director of the International Institute of Communications, the independent research body, has studied international broadcasting finance. He is convinced that the source of funding is not necessarily the most important single factor governing programme quality.

"There is no evidence that I have come across which shows a necessary link between sources of funding and quality of programming," Mr Howkins says. What he believes is vital for programme quality is the professional culture of individual broadcasters combined with strong regulation.

It is not an argument which impresses Mr Stuart Young, chairman of the BBC and senior partner in accountants Hacker Young. He believes quality would disappear if ITV and BBC were fighting for the same revenue.

"Quality will first be shifted to different time slots within the schedules and then it will disappear because the advertising imperative, the chequebook, will be chasing the popular programme into the key slots," he says.

It would be possible, he concedes, to design a system which would contribute some advertising revenue to the BBC. "But what is the purpose of contributing £50m or £100m? Why don't we keep the system we know works where we can guarantee we can keep the quality up and yet make it more acceptable to the public to pay," Mr Young emphasises.

He has submitted detailed proposals in oral evidence to the Research Committee to broaden the base of the licence fee and make it easier to pay cut anyway." Mr Mackrell says. Between 300 and 500 people are now leaving the organisation following a reappraisal of staff needs.

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## 'We had let the genie of commercialism out of the bottle and we could not squeeze it back again'

advertising revenue this year. The BBC is likely to have about £895m for the financial year to March 1986. By the third year of the current £58 colour licence fee period, the Corporation will be spending at the rate of £1bn a year.

The BBC estimates that by the end of the decade, assuming there is another three-year licence fee settlement, the Corporation would need a licence fee of just under £700.

Mr Alastair Milne, director-general of the BBC, concedes that over most of Europe there is a trend towards more commercial channels.

The trend elsewhere, however, merely serves to reinforce Mr Milne's personal conviction that "it is a good thing" to have alternative television channels which are not interrupted by advertisements.

"We have stumbled upon an extraordinarily elegant solution to the problem of financing broadcasting. The two systems have stood apart in terms of their funding and that is why the system works so well. Change it and the delicate

only to take short-term advantage of his Cabinet Office experience. One other stood out from the rest in terms of its challenge and excitement, he says. Pilkington, the glassmakers, has set out to build its electro-optical division into a substantial new source of revenue — turning "sunset" into a "phoenix" industry.

Normally in peacetime, the scientific community sees Nicholson's present post as its voice in the Prime Minister's complex of the problem. He had the lady's ear, but he has not been pressing the cause of the academics.

He has been focusing on economic problems and, above all, on Britain's failure all too often to turn its good ideas into commercial successes. He sees industry's misunderstanding of the exploitation of the EMI-Scanner as a national tragedy.

In Pilkington, Nicholson, 51, believes he has found a company which can innovate and turn the results into a long-term source of earnings and profits. Rarest of all, it can even turn innovations in the defence field to commercial advantage.

Mrs Thatcher, who has twice visited the company, has given Nicholson's move, next month her blessing. "She was able to talk to me about it from her own experience," he says.

The Thatchers are proud owners of two holograms — laser photographs — which are a spin-off of defence technology in Pilkington's electro-optical division.

## Hearts in the highlands

Brace yourself for the headlines: "The Tartan Takeover" or "The Scottish Distillers' Scotch Argyll?"

At the start of their takeover struggle yesterday both Argyll and Distillers set out to show how very much their hearts are really in Scotland.

Along with traded insults over share prices and management styles, the two groups are keen to show what they will do for the Scottish public interest.

Argyll yesterday neatly questioned the pedigree of Distillers' head office in Edinburgh by sending details of its bid offer to Distillers' London office in St James Square — where Argyll said it thought the company's activities were centred.

John Connell of Distillers protested that the London office was a sideshow used mainly for export marketing. James Gulliver is a Scot from Campbelltown. Yesterday he announced that five of his six directors were also Scots. He added, so that his Edinburgh audience would be in no doubt where his heart is, "It is a source of sadness to me that in the early part of my career, to obtain full opportunity and raise the funds necessary to fund my own business, I had to move south."

Gulliver promises that the wanderer will return if his bid succeeds. He will, he says set up an enlarged group HQ in Edinburgh.

Critics' corner Sir Richard O'Brien hardly fits in with the "Marxist" epithet hurled by some anonymous Government minister at his report for the Archbishop of Canterbury on Britain's inner cities.

O'Brien, I would guess, stands in the Social Democratic quarter of the political

## Men and Matters

But the 65-year-old former chairman of the Manpower Services Commission succeeds, it seems, more than most in setting under the Government's skin.

He got his knighthood in Mrs Thatcher's first New Year's honours list a fact which Mr O'Brien, probably finds as irksome now as the fact that he headed the Crown Appointments Commission which recommended Dr Robert

to social neglect. Further warnings about inadequate training and rising unemployment followed — and early in 1982, Norman Tebbit, then Employment Secretary, replaced O'Brien with the more politically congenial Lord Young.

O'Brien was given the part-time job of chairman of the Engineering Industry Training Board. But as he approached retirement earlier this year, he emerged again as chairman of the all-party Employment Institute, set up in opposition to the Government's employment policies.

Now, with the Archbishop — whose views on most things from the Falklands to the handling of the miners' strike have caused annoyance in Downing Street — O'Brien is back with more criticisms.

A prominent Church of England layman, he has taken a lively personal interest in inner city social work since an early involvement with the National Association of Boys Clubs.

The report which has so upset the Government, he asserted yesterday, was "in touch with reality."

## Opting for optics

Sir Robin Nicholson, rather shyly agrees: yes, he has had a lot of approaches for his services. As the Government's chief scientific adviser for the last four years, he knows a lot about the strengths — and more especially, perhaps, the weaknesses — of Britain's situation in the advanced technologies.

The UK Atomic Energy Authority wanted him as chairman, but his own future is none too clear. Some other approaches, he suspects, sought

"I'm not saying it's Marxist, but there is a tendency towards the church militant"

Runcle's name to her as Archbishop of Canterbury. Politically, she has found the two of them a bit of a trial ever since.

Within six months of being knighted, the normally cool, restrained and deliberate O'Brien was making a forthright protest about cuts in the MSC which, he said, would lead

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## Letters to the Editor

## Gap between British and French railways

From the Editor, *Railway Gazette International*

Sir—It is all very well for the Government to chafe at the failure of Channel link negotiations to sign agreements with British Rail and French Railways (SNCF), as you reported on November 29. The main obstacle facing the promoters however is the seemingly unbridgeable gap between BR's cautious forecast of 11m passengers a year and SNCF's very ambitious 16m. This discrepancy reflects in turn the totally different regimes within which the two railways operate.

For example SNCF cannot comprehend how it is possible for British customs and immigration officials to refuse point blank to work on a moving train when this is standard practice all over the continent. This means that all trains entering Britain must terminate inconveniently at Waterloo, the only London terminus where space

is available for the long queues inseparable from such examinations. So if SNCF assumes a three hour time for London Paris without perceiving that the transit time is actually 3½ hours because immigration officials require passengers to present themselves 30 minutes before departure, its forecast of diversion from air will be seriously adrift.

Likewise, SNCF is assuming that new high speed lines will connect Paris and Brussels with the tunnel. To attract 16m passengers a year, these lines would have to be matched by greatly improved infrastructure on the British side, which our Government will not countenance. So capacity will be limited, and the high speed fliers will have to jog up to London at speeds far below the 125 mph achieved by BR on other routes.

Of the two main promoters,

Channel Tunnel Group claims it is "within a hairs breadth of agreement with BR," using the lower estimate of traffic; but CTG's partner France-Manche cannot settle with SNCF on a consistent basis. Although CTG's tunnel has ample capacity for all the trains envisaged, SNCF would prefer a tunnel under exclusive railway control and thus favours EuroRoute. BR's estimated traffic however is too low to support the £1.4bn investment in a tunnel used only by through trains.

EuroRoute's chief executive Robin Biggam told me last Friday that a separate rail tunnel could only be viable if there were infrastructure improvements in Britain that went well beyond what BR is currently proposing in its £300m "minimum investment" package. To ensure that the 16m passengers a year envisaged by SNCF actually materialise, he wants

"an agreement that locks both railways into the investment needed for high speed service."

The French consider this quite reasonable, but such an agreement is anathema to our Government because it commits public money to the tunnel project. Yet Mr Biggam says he must have a long term contract which commits the railway to a minimum level of revenue before he can raise finance for a rail tunnel.

CTG is more flexible in that it can afford to regard rail as a marginal source of revenue. Nevertheless, both CTG and BR now consider that the fundamental disagreement between BR and SNCF can only be resolved by a dialogue at Government level. Over to you, minister.

Richard Hope,  
Quadrant House,  
Sutton, Surrey

## Monopolies in retailing

From Mr M. Taylor

Sir—Your front page of November 26 rang with the tiny fanfare of defensive mergers, both designed to see off (perhaps imaginary) corporate raiders, and both leading to increases in market power in sectors—retailing and food manufacture—in which the UK economy already shows a notable degree of concentration. Were the FT commentators not so busy reforming the cat and cleaning up world trade, they might have exposed the pretensions, cosy or sinister according to taste, of these local agglomerations.

If only because manufacturing, little as one may wish to have anything to do with it, is widely thought to be important.

The Monopolies Commission usually gets down to scrutinising merger proposals in the end, even when they are aimed at building world as opposed to domestic market share. So one might expect the dispirited official machinery to ease the Imperial/United Biscuits proposals in due course.

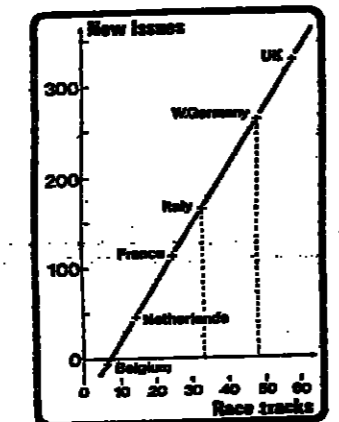
But since retailing is generally held not to matter very much, ambitious monopolists—working in a largely sealed domestic competitive arena—can get away with merger so long as they embrace design and promise to foster consumer choice. A nation of shopkeepers, Sir: how safe is the genitive plural?

Martin Taylor,  
89 Dacre Park SE13.

## Eight race tracks needed

From Professor G. Gregory

Sir—I refer to the reported analysis (Management Page, November 19) by Mr Harry Fitzgibbon demonstrating the relationship between a country's potential for a secondary market (ie new issues) and the number of race tracks within its borders. The analysis applies a simple average of the ratios of these variables, using the relatively crude average (4.8) of the three individual data values: 5.5 (UK), 4.4 (France) and 3 (Holland).



A simple plot however, of the original data demonstrates a much closer relationship, the line New Issues = -49.6 + 6.35 (Number of race tracks)—passing almost exactly through the three values given. This then gives the revised figures for new issues of 5.1 for Belgium (17 race tracks), 180.0 for Italy (33 race tracks) and 255.2 for West Germany (48 race tracks). The potential in both Italy and Germany is rather greater than Mr Fitzgibbon suggests, whereas Belgium should indeed seek an alternative source of venture capital.

## Barriers to free trade

From Mr P. Ashdown MP

Sir—Your paper has recently carried extensive reports on the bid by the EEC Commission to limit the barriers to free trade within the Community.

I noticed, however, that no mention was made of two damaging and extensive controls which limit the movement of electronics and computers both within the Community and in terms of exports from the Community.

The first of these constraints, imposed by US corporations under the terms of the US Export Administration Act, seeks to deny rights of movement and change of use to users of ordinary commercial computers in the UK and EEC. This has been recently upheld by a branch of UK sovereignty by Sir Michael Havers in a letter to me. Implying as it does that the integrity of Parliamentary jurisdiction has been usurped, it is deeply regrettable that Sir Michael in a confirmation of the same letter indicated that he was not prepared to do any-

thing about the matter, grave though the implications are, for Parliament, Government and computer users in the UK.

The second restraint is that operated via the CoCom regulations. These regulations, agreed by a group of western nations without any form of treaty, cover far more material than national security requires.

No one questions the need for strategic controls on shipments of technology to the eastern bloc. But the case for real controls is virtually destroyed by the huge amount of non-strategic non-military material covered by current CoCom regulations. In addition, one could argue, not unfairly, that these controls seek to subvert both the letter and the spirit of the Treaty of Rome.

Lord Cockfield is to be commended and encouraged in his endeavours, but needs to look beyond the constraints imposed within it.

Paddy Ashdown,  
House of Commons, SW1.

## Most investment fund managers are myopic

From the Investment Manager, *Confederation Life Insurance*

Sir—Clive Wolman (London, November 29) is skating on thin ice, his defence of "myopic" fund managers is neither justified by his arguments nor supported by the facts. The three examples of a long term view that are cited are, to say the least, debatable. Sectors such as stores and food retailing are not selling at substantial premiums to the market because of a "long term view." Quite the reverse, in fact, these ratings are the result of an excessive concentration on the short term consumer boom and an inordinate amount of speculative activity. Stocks such as London and Edinburgh and Speybank are not selling at twice asset value because fund managers have

assessed their long term potential, what they are doing is concentrating on the strong short term trend in profit/asset growth that has been produced by these two and not giving a great deal of thought as to what happens beyond a one to two year time horizon. The composite insurance example really clutches at straws. This sector's recent outperformance is simply a reflection of the normal ebb and flow of relative strength/weakness in the market. In the last quarter of 1982 the market had overdone the gloom, this has been redressed by a modest degree of relative outperformance. Indeed, if one were to take a really fundamental long term look at composite insurance it might be difficult to

justify holding any at all. No, to those who have worked in the market for any decent length of time Mr Walker's comments on myopia ring very true. Fund managers are in general unwilling to take a long term view, preferring to follow short term cycles and being seen to be fashionable. Currently, else justified, ICI currently on a multiple of 33? Where is the long term view on ICI?

I dare say readers wouldn't mind too much if fund managers were short or long sighted, or even had two heads, if they actually produced the goods. It makes no odds whether one agrees with Mr Wolman or not. What is worrying is that fund managers, on

the whole, do not perform adequately. I have on my desk a survey of UK equity pension fund returns, produced by an independent actuarial consultancy. Over the 10 year period 1975 to 1984 43 per cent of managers achieved a return above that of the All Share Index. Over the five year period to the same date, again only 43 per cent were superior. Interestingly, over the one year period the figure was even lower, only 41 per cent. Such results hardly support an "efficient investor" theory with participants correctly discounting the present value of future earnings.

Mr Walker is right to be critical.

Paul Gaunt,  
50-52, Chancery Lane, WC2.

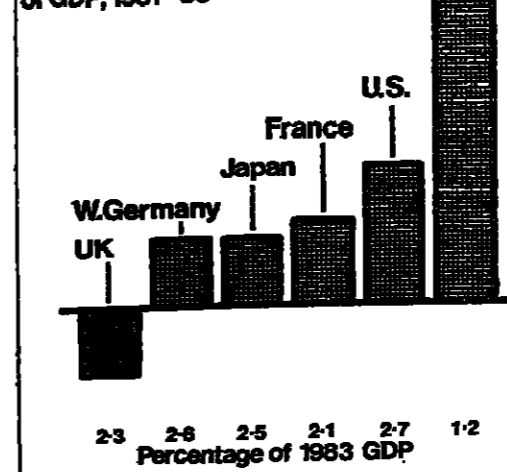
## BRITAIN'S R &amp; D PROGRAMME

## A disturbing outlook

By Peter Marsh

## How Britain lags competitors

Change in R &amp; D spending as proportion of GDP, 1981-83



Source: Economic Trends, August 1984 &amp; August 1985

In the long run, the marriage between science and defence is corrupting, and will at best turn science from a liberating to a destructive force, and will at worst ultimately dry up the wells of inventiveness in the scientist himself.

THESE words, written 22 years ago by Lord Hailsham, now Lord Chancellor but at that time Britain's first Minister for Science, may soon be reverberating in the ears of Mrs Margaret Thatcher and her Cabinet colleagues. The reason is a review of research and development in Britain by Sir Robin Nicholson, the Cabinet Office's scientific adviser, that the Government is about to publish.

The report can hardly fail to paint a disturbing picture. It is likely to show that, while the country is increasing expenditure on R & D at a negligible rate compared with many of its competitors, the resources being channelled into military research (which produces relatively little in terms of commercial products) are rising disproportionately.

Spending on military R & D is already much higher than in most other Western nations, the outlook for the future of industrial activities which rely on innovations in areas such as materials, electronics and biochemistry, begins to look alarming.

The message may already be getting home to some members of the Government. One objection to the Cabinet's participation in the US "Star Wars" programme is that more UK scientists would be tied up in defence projects.

In Britain, US and France all devote a relatively high proportion of their research cash to defence. Military research accounts for 28 per cent of total R & D in the US, 27 per cent in Britain and 22 per cent in France, compared with only 4 per cent in Germany and 0.35 per cent in Japan.

The difference is due in part to the heavy spending by the three on nuclear weapons research. Less appreciated is the extent to which, in Britain, the resources channelled to military research have been increasing at a greater rate than those devoted to research in areas of more immediate benefit to the economy, in industrial technology and fundamental science.

Between 1972 and 1983, Britain's total R & D spending rose slightly, from £7.0bn to £7.23bn (1983 prices). But while

cash for applied, civilian research rose in real terms by a mere 2 per cent and that spent on fundamental science declined by roughly one-fifth, defence R & D climbed by 22 per cent.

A little over three-quarters of Britain's £2bn outlay on defence research is spent in industry. The rest is spent in Defence Ministry research centres such as the Royal Signals and Radar Establishment at Malvern, the Atomic Weapons Research Establishment at Aldermaston and the Royal Aircraft Establishment. Of the 62,000 scientists and technologists employed by the government (out of the country's total R & D staff of some 260,000) about 27,000 work in defence.

Despite its political and strategic significance the volume of resources directed to military research seems to be inconsistent with the place it occupies in the UK economy. Defence activities account for only 6 per cent of Britain's Gross Domestic Product and 3 per cent of exports.

Cash spent on defence research, moreover, rarely stimulates commercial advances outside the military arena. Thus scientific work in, say, radio receivers for defence systems will seldom improve the quality of electronic hardware for civil use.

This is largely due to the

secrecy frequently associated with military projects together with the fact that many UK defence programmes require specific technical advances, for instance to "ruggedise" equipment for battle conditions, that are not needed in civilian areas.

In many instances civilian industrial products which could use technologies developed from a particular military programme simply do not exist. It is difficult to envisage, for example, many commercial spin-offs from work in designing nuclear warheads.

The issue is important because other areas of the economy show signs of being starved of research resources. Britain is out of step with other leading Western nations in showing a fall in the proportion of its gross domestic product devoted to research (see table). Between 1981 and 1983, this figure decreased by 2.4 per cent to 2.3 per cent, a small change perhaps, but one which is highlighted by the extra resources that other countries are putting into R & D. West Germany, Japan and Italy (all of which spend relatively little on defence research) all increased the resources devoted to R & D over the same period, while similar trends were shown in France and the US, the two other countries with high levels of research spending on

military programmes. Britain's record of industry-financed R & D—the area judged to have the most immediate effect on economic performance—has been dramatically worse than many of its industrial competitors over the past couple of decades.

By contrast with Britain's meagre 0.9 per cent per annum rise between 1967 and 1982, Japan increased its spending in this area over the same period by 9.8 per cent a year, and France and West Germany both by 5.9 per cent, and the US 4.1 per cent. Even smaller countries like Ireland and Sweden recorded substantial increases.

In its annual report on science and technology published in October, the UK Department of Trade and Industry gave a gloomy prognosis. "Of the five leading industrial nations, the UK devotes the smallest share of its gross domestic product to civil R & D. This disadvantage in quantity is not offset by any generally greater effectiveness of R & D in Britain. A combination of different indicators all point to the declining industrial impact of the UK's civil R & D effort."

The impact of reducing the proportion of R & D spent on military research is difficult to gauge. But it might make available more scientists and engineers for commercial activities.

What should be done? Putting more defence research contracts out to tender and easing the restraints that stop military scientific establishments sharing their innovations with the outside world (both of which measures the Defence Ministry is trying) would certainly help. If trimming back on defence activities is ruled out on political grounds, a concerted effort to boost the cause of research and development in the rest of the economy could be a more fruitful way to proceed.

Individual scientists and engineers could do much more to convey to the general population the long-term benefits of the work that they do in fundamental areas of research. They should not have to rely on Government departments to do this job for them.

Such actions could help to convince British public opinion of the degree to which the country is out of step with other developed nations in the way it conducts research—and of the dangers to Britain's industrial future if these trends are not arrested.

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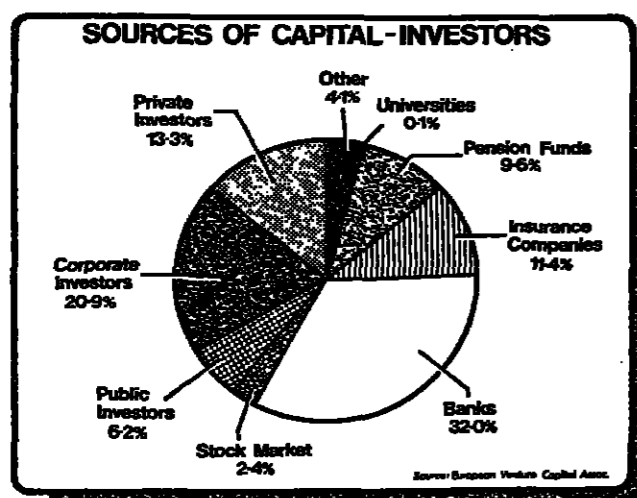
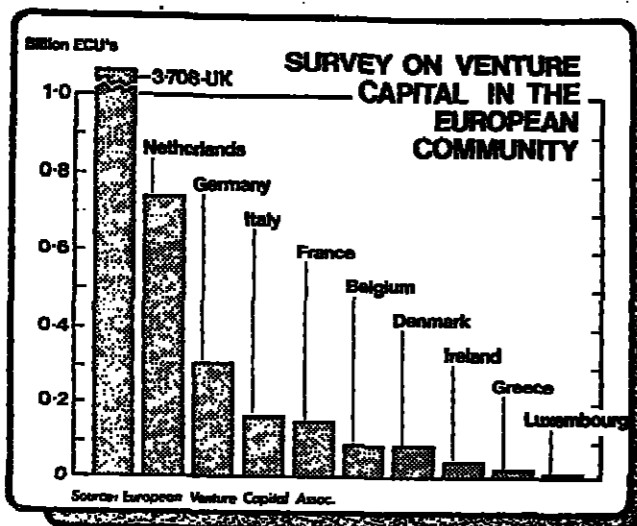


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## SECTION III

## FINANCIAL TIMES SURVEY



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## Venture Capital

THE SURGE in enthusiasm for venture capital, having first engulfed the UK, is gathering pace as it spreads across Continental Europe.

Sources of risk finance for small businesses have never been so numerous. European governments, led by Britain, the Netherlands, France and West Germany are experimenting, with varying degrees of success, with this US-inspired investment discipline as a means to stimulate the fledgling enterprises which they see as so vital to their nations' economic growth.

West Germany, for instance, is trying to inject more dynamism into its venture capital industry by passing legislation to allow individuals to invest via publicly quoted funds in small enterprises.

France added legislation earlier this year to stimulate risk investment, on top of a battery of existing support measures.

The Netherlands, meanwhile, has helped to turn its venture capital industry into the second largest in Europe with the introduction of an increasingly popular government guaranteed equity investment scheme. In Britain, the longer established Business Expansion Scheme has played a similar part in creating a more entrepreneurial climate among businessmen and investors.

At the same time, however, the heady optimism associated with this fast growing industry's early years is being leavened with a touch of sobriety. Venture capital organisations in the US and Britain are beginning to realise that the process of supporting small expanding companies requires quite different — and more demanding — disciplines to those needed to pick potential winners in the first place.

The continuing shake-out in the prices of high technology stocks quoted on the US over-the-counter market, echoed by a similar downturn of electrical share prices on London's Unlisted Securities Market, has shown just how vulnerable such ventures can be when turning

The venture capital industry is growing rapidly, but it is being found that the disciplines required to support young, expanding companies are quite different from those needed to pick potential winners in the first place.

## Gathering pace across Europe

By William Dawkins

out products with short life-cycles for fast changing industries.

Important institutional investors, many of which expected too much too soon from their venture capital investments, are beginning to take a more critical look at the industry's performance before getting more deeply involved.

"Institutional investors were only interested in one thing — investment results — and from 1979 to 1983, they got them. Since then . . . the experience has been less than satisfactory," Mr Peter Brooke, managing partner of the US-based international venture capital group, TA Associates, told a recent conference in Geneva.

The widely publicised management and trading problems experienced by formerly spectacular US venture-backed success stories like Apple Computer and Federal Express, the overnight package delivery service company, have only served to emphasise just how easy it is for risk capital investments to turn sour.

It is hardly surprising against this background that the rate of growth in fund raising and investment in venture capital has slowed on both sides of the Atlantic.

Meanwhile, the proportion of investments going to prop up existing venture-backed companies is rising — up from 57 per cent to 62 per cent of the

number of financing rounds in the US last year, with a similar, though less dramatic pattern in the UK.

As a recent issue of the US magazine, *Venture Capital Journal*, put it: "We almost had it all in 1983 . . . Money was easy to raise and too much was invested too fast, in too many similar businesses, by too few human resources."

The result was that 1984 "was a year to pay the piper for earlier excesses," though the industry will benefit from the stabilisation that is currently occurring, argues the journal.

One consequence of the pressures on US venture capital — and a mark of the growing internationalisation of the industry — is that an increasing number of US institutional investors have begun to turn their attention to Britain.

Venture capitalists in the UK and all over Europe are, however, complaining of a serious shortage of investment opportunities of the right quality, especially among start-up businesses.

The extent of this dearth was revealed in a recent report by the European Venture Capital Association. This showed that only just over half of the Ecu 7bn (£4.3bn) of risk capital available in the European community had actually been invested in small businesses.

"While these funds are

nominal available for venture capital throughout Europe, the general lack of sufficient good quality investment projects or young companies requiring investment dictates that a large proportion of the funds will be channelled into mature companies requiring development capital," said the accountancy firm, Peat Marwick, which compiled the report.

The association's anxieties are illustrated by the ease with which large management buy-outs have been able to raise money on an unprecedented scale in Britain this year. An estimated \$800m or more has been spent on UK buy-outs so far in 1985. Admittedly, most of that came from banks rather than venture capital investors, but it still dwarfs the £284m invested by the British venture capital industry in the whole of 1984.

Both the association and the European commission are anxious about the restrictions which small European businesses face, because of the considerable national and trade barriers they have to overcome in a fragmented community. They are both looking for ways to encourage cross-border syndication of venture capital financings as a way to help small companies address Europe as if it were an extended domestic market.

Syndication is getting more common across Europe as venture capital investors become more aware of the value of sharing risks, but "the tendency is still to conclude arrangements with national partners," says the association.

An encouraging sign that these barriers can be overcome came with the announcement in September of a \$65m (£45m) plan for an all-European custom microchip company with operations in Britain, France and West Germany. European Silicon Structures, to be chaired jointly by Mr Bob Wilmot of Britain's ICL and Mr Robert Heikes, head of the US group National Semiconductors' European operations, had already

raised \$4m from venture capital funds in six European countries and plans to pull in \$60m more.

However, ventures like that are extremely rare in Europe. They embody a depth of management experience and scale of ambition which is entirely lacking from the bulk of investment proposals which pass across European venture capitalists' desks.

Admittedly, the success of London's USM and its Dutch and French counterparts has contributed towards changing that state of affairs. They have proved to managers that the rewards for building a business can be huge, and have provided an essential exit route whereby

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## Venture Capital 2



Mr David Cooksey, managing director of Advent, which like other US-inspired groups, such as APA, Thomson Clive and Venture Founders, provides "hands on" support to young companies.

## Gathering pace across Europe

CONTINUED FROM PAGE ONE

institutional investors can extract their profits.

Yet the incentives for seasoned managers to abandon the security of careers within large corporations for the perils of an independent existence are still far less in Europe than in the case in the US. According to one estimate, the average 40-year-old British executive in a senior post can expect to have saved £50,000 excluding pension rights, while his US counterpart will have saved about \$250,000 and will therefore be in a better position to go it alone.

On the other side of venture capitalists' desks, the British industry is still notably short of executives experienced enough to provide the kind of "hands on" support to portfolio companies such as offered by US-inspired groups like APA, Thomson Clive, Advent and Venture Founders.

There are probably no more than 100 fund managers with over five years' experience of venture capital in the UK. In an industry which made almost 570 investments in domestically based companies alone last year, their skills are considerably stretched.

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## Switch to more supportive role

**The UK**  
WILLIAM DAWKINS

THE British venture capital industry is entering a cooling-off period after three years of hectic growth.

Many venture capital groups are finding that after the glamour of the early years chasing up new investments, an increasing proportion of their time is now being directed towards supporting existing companies with management advice and further rounds of finance.

Fund raising and investment in emerging enterprises both reached new highs in 1984, while a record number of venture capital groups were formed. Thirteen independent groups joined the industry last year, according to the end of 1984 total to 99, a far cry from the bare handful of players which existed a decade ago.

Our guide to sources of capital for unquoted companies, published elsewhere in this survey, lists around 130 groups.

The industry raised a total of £220m last year, according to Venture Economics, the London-based research consultancy. Most of that went to independently managed funds (as opposed to groups owned by banks or pension funds) the fastest growing business.

The signs are that this year's fund raising will just about equal the 1984 figure—though that is on the assumption that one excludes the huge sums

being mobilised to back management buy-outs of large established companies, an activity outside the strict definition of venture capital.

Powerful institutional investors like pension funds, which contributed 40 per cent of last year's venture capital pool, are waiting to see how their earlier investments have performed before getting too heavily exposed to what is a new field for them. Fund managers, meanwhile, are finding their ability to invest new money hampered by a shortage of start-up companies of the right size and quality.

Investment, as opposed to fund raising, rose from £215m in 1983 to £284m in 1984, a figure which would be much larger if it included the substantial sums placed by investors in industry (31) and the direct investments made by institutional investors who preferred not to go through venture capital funds.

Almost a fifth of the outflow went to the US. That is partly because investing in US venture capital is considered a good way of importing technology and ideas for use in the British market, but it is also a telling sign of the shortage of deals at home.

"It is becoming increasingly obvious that there is a very limited supply of good early stage deals, with the result that there is sometimes hectic bidding for them," says Mr Tony Lorenz, managing director of Equity Capital for Industry (ECI).

The pace of investment is continuing to grow fast, but a large share of the industry's funds is going to more mature companies and particularly to management buy-outs.



Mr Ronald Cohen, chairman of Alan Patricof Associates

"We are having to look at later stage companies because there are not enough of the early stage investments available at the right prices," says Mr Lorenz. "There is a lot of money around, and many people are feeling that it is better to use management resources which are still pretty thinly stretched—to nurture the bigger deals."

Mr Geoff Taylor, head of 3i Ventures, the high technology investment arm of 3i, echoes: "Now that the heady bloom of 1983 and 1984 has worn off, we are left with a level of quality backable deals that is lower than we would like to see."

3i Ventures, ECI and other groups have as a result been directing all their marketing and promotional skills this year towards encouraging more experienced executives to leave large companies and strike out on their own.

As part of that process, venture capital groups are getting increasingly involved in creating their own deals rather than just waiting for them to roll in. One example is the approach taken by Alan Patricof Associates (APA), in approaching DuPont, the US electronics group, with an idea for a spin-off which resulted, in July, with the creation of Ion Beam Systems, an ion optics group with headquarters in the UK and US.

Deals of that nature are so far rare in British venture capital, but Mr Ronald Cohen, chairman of APA, believes they

will become more frequent. "It's all part of creating your own demand," he says.

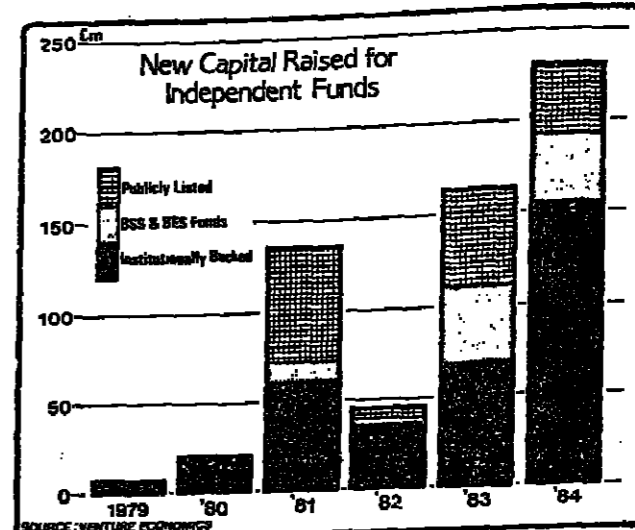
Similar thinking lay behind the formation by ECI last spring of a joint venture, Pre-Seed Technology, with Cambridge Consultants and three pension funds to fund research projects with the aim of turning them into commercial ventures, an approach attempted by at least three other funds with varying success.

The industry is meanwhile finding that a greater share of its investment is going into refinancing companies which have already attracted venture capital backing. Refinancing accounted for 16 per cent of last year's investments, according to the British Venture Capital Association, and that proportion is almost certain to rise in 1985.

In one respect, that trend is a natural result of an important principle of venture capital: that developing companies return to their backers for more finance as their needs grow. Yet the investments of earlier years have also brought with them their own special problems—and in some cases these have stretched the management skills of their venture capital backers to the limit.

These difficulties were highlighted last summer by the Prutech Corporation's decision to merge Frutec, its high technology start-up arm, with its in-house venture capital activities because of higher than expected losses and management problems among Frutec's investments.

The episode led to the resignation of Dr Derek Allam as Prutech's chief executive and



illustrated harshly that the disciplines needed to handle the problems of growing companies are very different from the glamorous business of appraising and backing new investments.

An important stimulus to the venture capital industry has come from the Government's Business Expansion Scheme (BES), which permits individuals to claim tax relief for investments in unquoted companies. BES funds accounted for about 20 per cent of last year's venture capital investment and fund raising activity—and they too have been through a cooling off period in 1985.

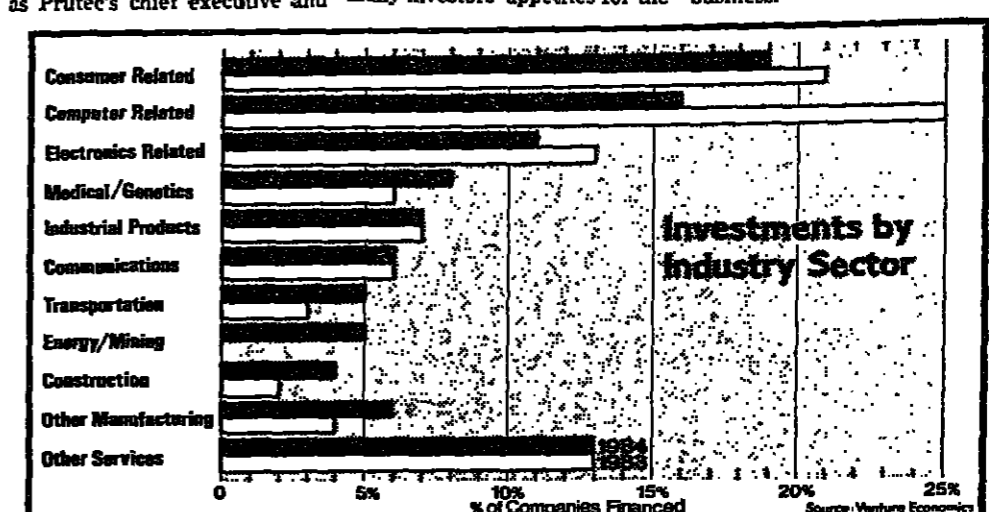
By the end of October, £18.3m had been raised by 13 BES funds, according to the BES Magazine. That is well down on the £31.8m raised by 25 funds in the comparable period of 1984. A flow of direct share issues from asset-backed ventures like wine cellars, art dealers and race horse breeders has sapped many investors' appetites for the

riskier proposals which the funds tend to back, in line with the Government's intentions for the BES.

Property developers were thrown out of the scheme in the last Budget, but the current stream of direct issues still invites questions over the scheme's effectiveness. The Government is concerned to what extent the BES provides new money for small businesses or merely replaces other sources of finance.

Failures among the earlier BES-backed companies have also served to cool investors' sentiment. At least 29 of the 305 companies to have received BES finance in 1983-84 have failed, and five of the 229 ventures to be backed under the scheme in 1984-85 have also gone down.

Those failure rates are not high by venture capital standards, but they provide a sobering reminder of the extent to which venture capital is a risk business.



## Glowing if less eventful future

**The US**

TERRY DODSWORTH

THE striking financial returns from the US venture capital market over the last few years have generated the sort of expectations that are very difficult to maintain. This much has become obvious in the last 18 months or so, as many of the venture funds have suffered a downturn in profits, or, at the very least, begun to mark time.

It is more difficult to say to what extent the setbacks mark a decisive change in the market.

In the palmy days of the early 1980s, the US venture capital business grew at a rate which looked under any sober analysis to be unsustainable. Back in 1978, the funds assembled in the venture pools amounted to \$2.5bn, and actual investments amounted to something over \$300m. Six years later, the pools had increased to \$16bn, while investments had grown to \$3.2bn.

It was not difficult to see why the business had shown such a spectacular growth. Investors in the good years were often able to double their money, and returns on venture capital invariably outperformed the stock market. Rates of return of 30 per cent to 40 per cent were by no means uncommon, and the average over the 10 year period to 1984 was reckoned to be between 20 and 30 per cent.

Last year, however, the growth came to a stop. Many funds found themselves barely breaking even, and although performance has picked up again this year, the average rate of return is expected to be no more than around 20 per cent—a modest figure by the traditional standards of the industry.

The causes of this turnaround can be traced to supply, demand and marketability. Any business which shows excellent profits inevitably attracts competition, and this is what has happened in venture capital, as more funding has come in to try and capture the returns.

At the same time, one of the principal sectors demanding new funding—the personal computer and software industry—has developed to a stage where the technology is beginning to be concentrated in fewer—and somewhat maturer—hands.

The personal computer business seems to be settling into a period where there are a few dominant mass suppliers, products of which are complemented by several niche players. But there are unlikely any longer to be the plethora

of companies in the field battling it out to become IBMs of the future.

With the shake-out in the personal computer sector, the stock market has also lost some of its enthusiasm for high technology stocks. In 1984, in particular, trading prices came under such pressure that many of the venture capital companies that had been floated off found their shares trading at a discount to their issue price.

This, in turn, knocked the stuffing out of the new issue business, with the result that companies that might previously have sought a public quotation were unable to do so. They have thus stayed on the books of their initial sponsors for a longer period, cutting into the financial returns of the venture capital specialists.

With the US stock market currently at record highs, and sporting the sort of price-earnings ratios that have not been seen in years, it might be considered odd that the market for initial public stock offerings remains so dead. The fact is, however, that at the moment the main attention of the risk takers is being concentrated on other areas of speculative activity, notably takeovers, where the returns in the past two years have proved exceptional.

Some of the big US institutional investors which have typically invested heavily in venture capital pools over the past few years—the pension funds, insurance companies and rich individuals—have also discovered a new game. This is the rapidly-developing business of management buy-outs, where most investors over the past five years have typically shown above-average returns for risks which appear more predictable than in the venture capital business.

As a result, the pension funds have cut their exposure to the venture business radically, reduc-

ing their new investments in this field by around 45 per cent in the first half of 1985, according to Venture Economics, the Massachusetts research firm.

The total of funds available for venture capital investment has not shrunk significantly because most of the slack has been taken up by foreigners, who are still impressed by the speed and diversity of technical advances in the US. Venture Economics estimates that in the first half of this year, foreign investors raised their share of US venture capital investment from 20 per cent to 27 per cent, reaching a total of \$352m. The total figure invested in the entire sector this year is expected to reach around \$3bn, not far short of 1984.

Despite the maintenance of the financial base of the venture capital business, however, it is undeniable that much of the punch and certainly the astronomical growth rate has disappeared—at least for the time being.

The US venture funds are facing up to the retreat from a high growth pattern in a variety of ways. Some believe that, despite their expertise, they have been built in Silicon Valley-type electronics-based activities, that is where they should stay. Others are beginning to discover new areas of activity, backing other non-electronic high-risk, high-reward technology-based start-ups. Yet others are moving away still further from the technology concept to support new companies in service and other sectors.

The further the venture capital business shifts from technology, however, the more it moves towards predictable and less dizzy financial returns. Indeed, some analysts believe that what is happening to the business at present is not simply a cyclical downturn, as many of the venture capital companies claim, but a shift towards a more mature corporate structure, in which there is less risk

and less reward. In the past, the risk element has been high—as many as 40 per cent of the companies backed by the venture capitalists have failed.

The venture companies also appear to be less willing these days to accept the risks which they took as a matter of course in the days when their investments were more liquid. Whereas they used to be happy in many cases to take around 40 per cent of a company's equity, they now regularly demand up to 60 or 70 per cent.

Partly because of these more stringent demands, companies have begun to turn to a new and growing form of venture support—big public groups that are willing to finance and help with the development of an innovative idea. The funds invested by large corporations in this way have grown from \$100m in 1980, says Venture Economics, to \$470m last year, while the number of companies with established programmes to invest in this way has tripled in the last three years to around 50.

This alliance between large bureaucratic organisations and small entrepreneurial units is aimed at drawing the best from both. The big company receives the advantage of the new ideas that are being produced in the more free-wheeling environments which small businesses generally provide, while the small company can draw on technical and marketing support from its larger partner.

However, for many of the smaller entrepreneurial businesses that have had such a dramatic impact on the US corporate system in the last 10 years, co-operation with larger companies is probably a second-best choice compared to the freedom of making it alone. This is why venture capitalists believe they still have a glowing future in the US, albeit a somewhat quieter and less eventful one than that they faced 10 years ago.

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THE CREATIVE USE OF MONEY

## Venture Capital 4



The Paris bourse. The successful floating of several venture capital supported companies on the markets unlisted section augurs well for better established companies, which have already secured their product and marketing niches

## Funds outweigh opportunities

France  
DAVID MARSH

THE French venture capital industry is watching a growing volume of cash chasing a still relatively sparse number of entrepreneurial projects. Mr Hervé Hamon, managing director of Sofinnova, France's largest and longest established venture capital group, puts the pool of finance available for French venture projects at between FF 3bn and FF 5bn. A growing proportion of managers and researchers in companies and laboratories around the country are becoming interested in sinking funds and expertise into their own businesses. Many are of the opinion of Mr Paul Siffert, head of materials physics and the state CNRS research institute in Strasbourg—who has already contributed to setting up three companies to exploit semi-conductor research—that money is no longer the number one problem for people with good commercially-viable projects. The influx of funds, however, cannot hide the fact that France still has to overcome some cultural impediments to establishing a fully fledged venture capital industry.

Although some signs of growing flexibility are in evidence, large companies are still not as ready as in the US or Britain to see senior staff quit to set up their own business or take over "spun off" departments. In research institutes, narrowed promotion chances in the cash-strapped state run scientific hierarchy as well as the big influx of students in areas like biotechnology, are encouraging researchers to look at ways of commercialising ideas outside the laboratory. A time of high unemployment and economic uncertainty is hardly the right period during which to encourage professors and managers to leave comfortably paid jobs with large companies or institutions. But an increasing number of senior research staff are opting for an American-style solution of keeping one foot in the laboratory while at the same time setting up an outside business with the help of colleagues. France may be several steps behind the Anglo Saxon world in its approach to venture capital. But according to Mr Robert Lattes, head of venture capital operations at the Paribas investment bank—which is now making a major effort to boost its activities in this field in

France, after several years of breaking into the venture capital scene in the US and Japan—the Gallic approach is more positive and dynamic than that in West Germany. This is borne out by the successful start up in Paris over the past two years of US and British groups specialising in venture capital and management buy-outs, including Citicorp, 3i of Britain and Alan Patricot Associates. The French Government has been leading the way by bringing in, this summer, tax concessions to improve the profitability of investors in small expanding businesses. The administration's policies towards giving tax breaks for individual venture capital investment has still not evolved sufficiently, according to some financiers—but there is plainly room for more steps after the general elections next March. Higher start up costs and lower immediate profitability facing entrepreneurs in France compared with the US help explain why the majority of French venture capitalists put their money into established businesses rather than newly created companies. In a recent survey carried out by the Lyons Business School, 57 per cent of venture

and development capital companies and institutions interviewed said they did not participate in start-ups. The Lyons-based Siparex venture capital group, which is one of France's largest institutions in this sphere, prides itself on placing its cash mainly in well established companies to lower the risk. The emphasis on lowering risk is slightly less among regional development finance banks and agencies. Some of them—for instance in the battered steel region of Lorraine—admit that their investment terms are more generous than would be the case if they were following purely financial criteria. The successful floating of several venture-capital supported companies on the second marche or unlisted section of the stock market in both Paris and the provinces (above all Lyons) augurs well for the better established companies, which have already secured their product and marketing niches. France still has to show, however, that it can use venture capital as a tool to promote business start-ups rather than simply to aid development of companies which have already passed their first hurdles.

## Call for a rethink of objectives

West Germany  
JONATHAN CARR

THE Bank für Gemeinwirtschaft, one of West Germany's leading banks, had some telling remarks to make earlier this year on the country's venture capital scene, which is fast-growing and beset by what may charitably be judged as teething troubles. "A rethink is needed," the bank said "on whether the venture capital concept in Germany is not overloaded with national economic objectives. It went on to note that stronger economic growth, and a boost to employment, could be easier to achieve "if venture capital funds are consistently deployed to gain the highest possible profit."

That point about profit no doubt sounds wholly obvious to non-German (especially American) venture capitalists long used to making quite high risk investments in new companies with the key aim of realising a big capital gain after a few years. For these investors, it is virtually gone without saying that if the companies thrive the economy will benefit too—but that is not the prime point of the exercise. In Germany things have been different. The venture capital "boom" of the last three or four years emerged above all as a result of the economic reappraisal, forced on the Germans by the second oil crisis and the deep recession which followed. For one thing the sharp rise in the number of bankruptcies, accompanied by soaring unemployment, underlined the chronic lack of capital base of many West German companies. For another, the country's plunge into current account deficit from 1979 to 1981 sparked a fierce debate on how Germany was losing its international competitiveness, especially in fields like micro-electronics and bio-technology. Here, too, lack of equity capital was seen as a major drawback, above all to the research and development efforts of smaller, innovative high technology enterprises.

In the middle of this national economic soul-searching (and partly because of it) a centre-right coalition government came to power in Bonn after 13 years of centre-left rule. The new administration was naturally favourable to business and private enterprise and markedly more enthusiastic about promoting technology than its predecessor had been. It was in this context that German venture capital outfits began to sprout like mushrooms, where previously there had been almost none. True, a "Deutsche Wirtschaftsinvestitions-Gesellschaft" had been jointly formed by 29 banks for venture financing back in the mid-1970s. But its structure was cumbersome, business was slow and it underwent a major restructuring in late 1984. On the face of it the results



most are rejected. Naturally some of the schemes proposed are "bare-brained" ones wholly unworthy of support; but it seems quite a lot of others are dropped too, even though they hold promise of fast-growing (though naturally not risk-free) business. Young entrepreneurs complain that some of the venture capital organisations prove no more helpful than the banks. Indeed one small electronics firm in Berlin reports getting started with a bank's aid, after being turned down by a venture capital concern. Part of the reason for this is

problem born of the circumstances in which the venture capital wave emerged. It would naturally be absurd to suggest that German venture capitalists are not interested in profits. But it is fair to ask, as the Bank für Gemeinwirtschaft asks, whether the "venture" concept has not been "overloaded with national economic objectives." A lot of the companies seem to act with a dogged circumspection, as though aiming chiefly at performing a community service, rather than with an audacity intended to maximise profits.

The latter approach, of course, can involve big losses too—but it is just that (essential) element of risk-taking which some German venture capitalists evidently find hard to accept.

The upshot of a policy of caution may simply be that both profits and a contribution to capital creation, innovation and jobs will be modest. Things may change of course—and the Government is trying to inject more dynamism into the scene through a so-called "Gesetz über Unternehmensbeteiligungsgesellschaften"—a "law governing companies with stakes in (small and medium-sized) enterprises." The idea is to channel individual citizens' funds through investment companies quoted on the stock exchange into small, unlisted enterprises needing venture capital.

Both Britain and the US (with its Small Business Investment Companies) have experience with this kind of activity. But the Bonn draft law needs a lot of tidying up before finally being approved. Like the venture capital companies themselves, the Government gives the impression of moving rather uncertainly into unknown—and faintly hostile—territory.

## Young entrepreneurs complain that some of the venture capital organisations prove no more helpful than the banks. Part of the reason for this is a lack of expertise among venture capital concerns.

are impressive with around 30 venture capital outfits now in operation with some DM 800m available for investment. There is a bewildering variety of shareholders—ranging from management consultants to major companies (like Bosch and Siemens) to private commercial banks (like Deutsche, Dresdner, Commerzbank and Bayerische Vereinsbank) to the savings banks. Even the conservative insurance sector has been taken. Not all German venture capital outfits are so strongly placed.

This is crucial, both for assessing which schemes are really promising and—later—for helping, over years, companies in which stakes have been taken. Not all German venture capital outfits are so strongly placed. But beyond that there is a

lack of expertise among the venture capital outfits themselves, which, after all, have only been going a short time. The biggest German company in the field, Techno Venture Management (TVM) of Munich, has skilled venture capital partners in the US and Britain. It can also call for management and technical advice on an array of major German businesses which have put funds into its venture capital investment "pools."

So far so good—except that of the DM 800m available only a small share (probably not more than DM 100m) has actually been invested. The venture capital outfits get plenty of applications from budding entrepreneurs—but

## Concentration on the home front

The Netherlands  
LAURA RAUN

GROWING expertise among venture capitalists and greater entrepreneurial spirit among small businessmen are keeping within Dutch borders more of the risk-bearing capital that previously went abroad, notably to the US.

The protracted slump in the US high-technology sector has not boded well for venture capital either. Nearly one-third of all Dutch venture capital is estimated to have found a home outside Holland over the years. Venture capital funds are also being aimed better at the growth slows and projects are estimated to have found a home outside Holland over the years.

Venture capitalists in Holland, like their counterparts worldwide, are just becoming more demanding about the companies they fund. Entrepreneurs must demonstrate that they have marshalled their resources to ensure effective management, well-targeted products and services, and realistic marketing plans. In practice, this has meant that many of the best projects have already gained venture-capital backing while less-promising ones are still scrambling. Entrepreneurs still seeking risk-bearing capital can find the going even tougher if word has spread that they have lost out—a very distinct possibility in a country as small as the Netherlands. But that is what survival of the fittest is all about.

The growth in venture capital funds is tapering off after surging for the past five years. Dutch funds have soared to around F1 1.84bn, more than twice as large as anywhere else on the continent, but only one-fifth of those in the UK. The expectation is that venture capital will continue to expand

at a more modest pace, as some consolidation takes place.

Only a small fraction of those funds have been invested under the PPM scheme since it was established five years ago in a Government bid to stimulate innovative industries and industrial renewal. That amount, reported on September 30, is up 22 per cent from the level at the end of 1984, while the number of funded projects is 18 per cent higher.

Venture capitalists have argued that the conditions required by the Dutch central bank to become a PPM are too restrictive and thus only 33 v/m's are registered. To qualify, venture capital companies must limit their investment in any one project to F1 4m and invest at least 60 per cent of their initial capital within four years of establishment.

The trend in the Dutch industry is toward investing in consumer-product and services concerns, similar to the pattern in the UK and US. Plenty of money is still going into high-technology sectors such as computers, electronics and bio-engineering, but low-tech and no-tech is clearly growing more popular.

The diversification is illustrated by the cross section of projects presented at the first venture capital market in which entrepreneurs and financiers were brought together by the Dutch-American Chamber of Commerce. The gathering last June was modelled on the popular venture capital markets, pioneered by the Americans, and brought together nine young concerns, including one each from the US and UK, and more than 100 European and US venture capitalists.

The nine concerns included those with interests in chemicals, fast food, sporting goods, car rental, clothes, medical electronics, software and CAD-CAM. Mr John Padgett, an Amsterdam-based venture capitalist and an organiser of the gathering, said seven of the nine have received or are about to receive funding, while one is still pending and one has gone bankrupt. Some 75 entrepreneurs originally responded to the Chamber of Commerce's advertisement, but they were

whittled down to ensure a manageable number of presentations and high quality, Mr Padgett explained. Dutch venture capitalists are not dismayed by the consolidation in the industry but are urging fresh initiatives to stimulate activity. Mr E. J. Blaauw, chairman of the Dutch Venture Capital Association, has called for improved business education to prepare students for the risks of commercial enterprise and more training courses for managers of established companies.

Nesbitt, a leading Dutch venture capital company, has organised an information-exchange day for the seven concerns it has backed since its establishment four years ago. The aim is to provide cross-fertilisation among rapidly growing companies which often encounter similar problems. Another measure to foster venture capital has been recommended by Mr P. J. Van Ham, an accountant with Arthur Andersen in the Netherlands. He has urged that venture capitalists be allowed to borrow as much as 70 per cent or 80 per cent against their PPM guarantee instead of the current 50 per cent ceiling.

Mr Van Ham argues that lifting the ceiling would improve venture capital companies' profitability because the greater financial exposure would prompt better risk-spreading.

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## Venture Capital 6

### The industry's high flyer

#### Management Buy-outs

WILLIAM DAWKINS

LARGE MANAGEMENT buy-outs are turning out to be the taste of the year for the venture capital industry in 1985.

Investors are pledging massive sums of money to back buy-outs of a size and complexity which would have never even been contemplated a few years ago. Each new deal seems to break a record as the managers of ever larger and more established companies decide to break away from their owners.

One result is that the venture capital industry is being drawn increasingly into an area which has more to do with corporate finance than with fostering the development of small businesses.

Around £715m was being spent on management buy-outs in the first 10 months of this year, up from just £160m for the whole of 1984, according to accountants Peat Marwick.

Some industry estimates suggest that the annual total could approach £1bn by the end of 1985, rising to £1.5bn or £2bn annually during the next three years. Others, however, express some scepticism over whether there can really be that many large deals waiting to be financed.

Nevertheless, several venture capitalists have been busy in recent months mobilising huge funds aimed at management buy-outs with an eye to independence. Four specialist buy-out funds have been launched since July, making available between them at least £452m in equity.

They include the £250m buy-out pool managed by Electra Investment Trust with Candover Investments, a £100m fund from Citicorp Venture Capital, £72m from J. Henry Schroder Wagg and a £10m to £50m fund currently being raised by Granville & Co. The small investment bank there can be little doubt that others are waiting to join the buy-out bandwagon.

The actual purchasing power those funds represent is far greater than the basic figures suggest. If the companies they attract borrow three times as much as they raise in equity—

the norm for this year's larger deals—then those four funds alone speak for about £1.3bn. That does not include the large sums available from Investors in Industry (31), which has invested £140m in some 500 management buy-outs over the past five years and normally reckons to cover at least half of the buy-outs which take place in the UK. Nor does it include the 40 or so smaller specialist institutions which have sprung up in recent years to cater for this increasingly popular phenomenon.

Many of these smaller funds were established to support a buy-out market which is now being overtaken—though not eclipsed—by something far larger and fundamentally different in character. Typical deals in recent years have consisted of medium-sized family owned companies selling out to their own management or disposing of unwanted subsidiaries.

Now they are tending to take place for any number of tactical reasons, and even in response to a contested takeover bid. The first British example of this US-created technique was the £55.8m buy-out of Haden, the engineering group, completed in June to repulse the unwanted attentions of Trafalgar House.

That was the largest ever British buy-out at the time, but has since been topped by the £90m takeover of the Mallinson-Denny timber group and the £170m buy-out of Mardon Packaging (though the latter deal originated in Canada).

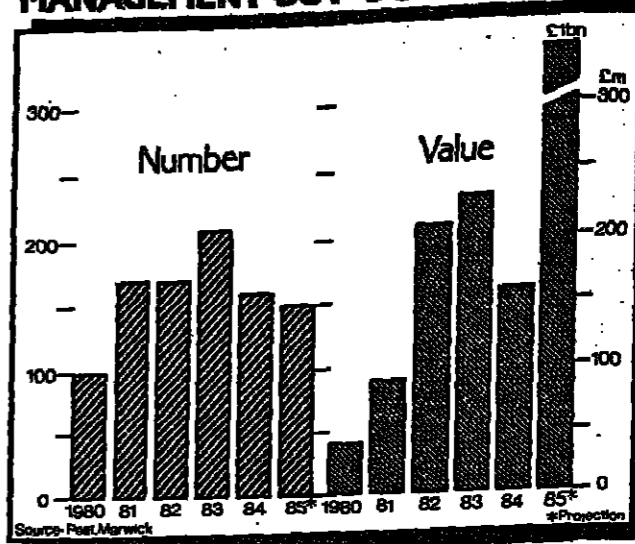
The growth in the number of management buy-outs is chiefly due to a feeling by many large corporations that now is the time to pay out of peripheral activities and concentrate on core businesses.

A number of other forces are also at work. An array of increasingly sophisticated financing techniques being developed by the City has led more managers to believe that larger buy-outs are possible.

US commercial banks in particular see an involvement in UK buy-outs—a sector in which they are renowned for the special skills they have developed at home—as an important way to an otherwise restricted British corporate finance market.

British institutional investors, meanwhile, have been building up the unquoted portions of

### MANAGEMENT BUY-OUTS TAKE OFF



their portfolios. During that process, they have seen how some of the smaller buy-outs of recent years can produce impressive returns for relatively slight risks. They now want to repeat those gains on a larger scale. Returns tend to be quick because buy-outs frequently involve well developed companies with experienced management which can soon be floated on the stock market.

It is therefore no accident that most of the recent batch of buy-outs have told their shareholders that they too will be joining the stock market in the next few years.

Underlying the euphoria, however, is a sense of anxiety in some quarters about the possible risks associated with the heavy borrowing that tends to go with large buy-outs. Management buy-outs are often only possible because the purchaser can put forward the assets of the business he hopes to buy as collateral against which to borrow the purchase price.

That is why buy-outs frequently—but not always—involve cash-generating businesses in mature industries which have over the years accumulated large assets that can be used to guarantee large loans. Mallinson-Denny, for instance, has £62.5m of debt backed up by just £22.5m of equity, while Haden's £60m borrowings stand at three times its £20m share capital.

High levels of gearing have always been a feature of management buy-outs. The difference is that the sums at risk have become much larger. Last year, for example, the average UK buy-out took place at a price between £800,000 and £1.4m. At the time of writing, there had been at least 13 buy-outs worth more than £10m each since January.

It was partly with buy-outs in mind that Mr David Walker, a director of the Bank of England, warned recently that he would not like to see the corporate sector's gearing rise to US levels. There it is not unusual to see buy-outs ending up with debts nine or 10 times more than shareholders' funds.

There was a risk, warned Mr Walker, that a company saddled with high debts would find "its capability to make long-term commitments reduced." That anxiety apart, several venture capitalists are dubious over whether the latest buy-out funds will really attract the volume of deals they are hoping for.

Dr Neil Cross, assistant general manager of 31, is certainly sceptical. "A lot of money is already available. The numbers that we have seen to that market potential," he says. "The funds argue that the very fact of their existence will prompt more British managers to think twice about their future." Awareness of this particular form of financing technique has grown considerably, says Mr Charles Gonsz, a director of Citicorp Venture Capital. "We have seen the first signs that the market is about to take off."

Even so, the current spate of buy-out funds are taking a shot at a market which none of them can measure precisely. But if they do attract fewer deals than they hoped for, they will on the face of it have little to lose. It is not as if the cash is waiting on deposit; it has simply been earmarked to be drawn down when needed.

All the same, a low level of applicants would leave plenty of explaining to be done in City boardrooms.

### The main deals of the past five years

Year	Company	Purchase price (£m)	Sector	Year	Company	Purchase price (£m)	Sector
1981	Ansafone	14	telephone answering machines	1985	Simplex	28	electrical equipment
1982	Stanley Gibbons	9	stamp dealer		Wordplex	28	office automation
	Victanile	14	mechanical engineering		Bahco	9	hand tools
	Stone International	18	railway air conditioning		Bison	10	civil engineering
	First Leisure	4	leisure		Willis Faber	12	insurance underwriting
	Nail Freight Consortium	53	transport and storage		Alexander Howden	12	insurance underwriting
1983	SFP Group	9	fluid engineering		Westbury Homes	12	housebuilding
	English and Amer. Insur.	10	insurance		Vesper Thornycroft	19	shipbuilding
	Hagita	13	electronic point of sale		Wades	19	furniture retailing
	John Collier	30	men's wear		St Regis	32	paper and packaging
	Timpson Shoes	40	shoe retailing		Mallins	50	engineering
	Richard Shops	50	fashion chain		Haden	50	engine and construction
1984	Evans Halshaw	9	motor dealer		Reed Building Products	61	building products
	DRI	14	computer peripherals		Mecca Leisure	95	leisure
	Paragon Group	17	industrial conglomerate		Mallinson-Denny	90	timber products
					Mardon Packaging	173	packaging
					English Estates	—	property development

\* Uncompleted deals

## Much thought, little action

### Corporate Venturing

IAN HAMILTON-FAZEY

THE state of corporate venturing in Britain is summed up by Mr Tony Lorenz, managing director of Equity Capital for Industry. He says: "There is an awful lot of thinking going on but there is very little evidence of anything happening yet."

There are a few examples—namely ICI's agricultural division and Pilkington Brothers—and several large British companies are involved in corporate venturing in the US, where the British style of making corporate decisions through committees has less of a grip than at home.

In corporate venturing a large company usually takes an equity stake in a smaller company or a joint venture. Normally there is some compatibility between the new venture and the products, services or markets which the investor hopes, eventually, to move into.

In the US the process has been used to give big companies a "window" on new technology, to help build up new businesses for acquisition, or to use the entrepreneurial flair of small business to "spin out" technology from "clay-footed" giant corporations.

ICI's agricultural division at Middlesbrough has at least assured that examples of how the dynamic works are now evident in Britain. Significantly, the key figure in the ICI management is Dr David Fyfe, a corrosion engineer who went to work in the US more than 10 years ago, returning to Britain in 1983 to head the division's planning co-ordination department.

He was well-used to the US atmosphere, which according to Susan Lloyd of Venture Econo-

mics has seen corporate venturing develop into "strategic partnering" between big business, small business and the venture capital industry. "Partnering" involves exchange of technology, the lending-out of big company marketing expertise and large companies getting their innovative products from small ones.

The problem at ICI's agricultural division was that it was well-established in several mature chemical businesses that offered little prospect for expansion. The division decided it needed to develop new products. It set itself the target of making a quarter of its profits from them by 1985.

Dr Fyfe says that the division considered putting money into a managed venture capital fund but decided against this, because there was no guarantee of projects being compatible with the division's core businesses. It also had to avoid trading on the toes of other ICI divisions—a fund that backed something that ended up more suited to say, ICI's plastics division would not be much use.

Direct corporate venturing seemed the way out of another problem for all its expertise in big business, ICI has very little in setting up and running new, small businesses. People in big business think differently, Dr Fyfe says. They over-protect ideas and set up systems that create overheads and negative cash flow.

So ICI set up a joint venture with an entrepreneurial company called Marlborough Tees-side Management, which had a good record in managing small chemicals projects. ICI took a 75 per cent stake and provided senior management with marketing skills.

"We took a piece of technology which had lain in our research department for 10 years and which had been officially killed off twice. We decided to give it one last chance," Dr Fyfe says. The idea

was a biodegradable plastic.

The joint venture company thought small and adopted a niche marketing strategy, finding pockets of demand and making products for them. Biodegradable colostomy bags were one example—bags can be disposed of, contents and all, without having to be emptied.

A big company would probably have searched in vain for mass markets. The small one, thinking small, concentrated on finding a lot of small markets. Apart from owning the major stake, ICI makes the plastic. The joint venture has achieved positive cash flow in only its second year.

In another "spin-out" with MTM, this time in a 50-50 venture, ICI agricultural division is producing plastic to make 750-kg fertilizer bags. These fit in with increasing mechanisation in farming and save the labour involved in silting and handling ten 75-kg bags to fill spreading equipment. The market is too small to be worth the while of ICI's plastics division, but is likely to be profitable for the agricultural division.

Other projects and approaches are under way and producing returns, a vital point in proving the value of corporate venturing to the divisional board.

Mr Lorenz says splits over corporate venturing usually develop on main boards between technical and financial directors, with the money men against. He thinks this may help explain why in the US—where marketing men do better than accountants in getting top jobs—companies are more ready to take the risks involved and wait for their returns.

A similar point is made by Mr Peter Shepherdson, general manager of Pilkington New Opportunities, who thinks that the glass giant's long struggle to perfect its float glass process conditioned the company not to expect instant returns from high technology investments.

"We were then a private company which did not have to worry about what the stock market thought," he says. Nowadays there is more pressure for faster returns but the point has not been lost. It may take seven to 12 years to see projects to start paying back but if they lead to durable products with markets that will last into the 21st century, the wait is likely to be worthwhile.

Pilkington has developed what Mr Shepherdson calls "a portfolio of approaches," investing directly in some cases, acquiring companies in others, setting up small, remote outposts in other and also using venture capital funds as partners.

Many of the advances backed so far can already be found earning profits in the group's electro-optical division. Established products include submarine periscopes, head-up instrument displays for pilots, night vision systems, tank laser sights and fibre-optic endoscopes for medical use.

Areas being developed include medical laser systems, power measuring instruments, servo control systems, and applications of fibre optics technology that include perimeter fences, data transmission and solar energy.

Mr Shepherdson would like to spend £2m a year on his portfolio of approaches but is only allowed £500,000, with a step-by-step approach to each investment. He says: "I don't think you can plan corporate venturing. Most advances happen by serendipity. You have to go about with your eyes open and with people knowing that you are interested and have money to spend."

Both he and Mr Lorenz know that it is enough to give the average financial director nightmares, which is probably why so many large companies are having such a struggle in making up their minds.

## Venture Capital 7

## Concern over effectiveness

### Business Expansion Scheme

WILLIAM DAWKINS

THE GOVERNMENT'S Business Expansion Scheme is an example of how even the best intentions can sometimes lead to flawed results.

While the scheme can take much credit for stimulating private investors' interest in venture capital, it has also succeeded in channeling many millions of pounds into sectors which its creators never intended to assist.

The Government is understandably concerned about the effectiveness of the scheme. At the time of writing, it was shortly due to receive a report commissioned from accountants Peat Marwick examining to what extent the scheme provides additional finance for small businesses or merely replaces other kinds of funding.

Established in March 1983 as a replacement for the highly restrictive Business Start-Up Scheme, the BES proved an instant hit with private investors. About 20,000 individuals took advantage of the tax incentives it offered to invest £105m in around 715 companies—half of them new ventures—in 1983-84, according to the Treasury.

That compares with the mere £13m or so invested through the start-up scheme in the whole of the previous two years. More recent official figures for total BES investment are not available, though it looks as if the 1984-85 total will at least equal the previous year's.

At first, it looked as if the BES was succeeding admirably in its brief to attract equity to small high risk ventures that would have found it hard to obtain finance on normal terms. By permitting individuals to offset the cost of investing in unquoted companies against their top marginal rate of tax, it effectively allowed 50 per cent taxpayers to buy £100 worth of shares for just £50.

But by the end of the first year, a loophole emerged in the shape of a number of asset-based financing ventures, which pulled in £17m before being thrown out of the scheme in the 1984 Budget. It was inevitable that another loophole should crop up the following year. This time it was property development, which got away with almost £50m before being banned in the last Budget.

The flow of new issues which are outside the spirit of the scheme but within its rules is still increasing. The latest batch includes a colourful array of fine art dealers, wine traders, country hotels and racehorse breeders. They are attractive to investors because their assets are felt to be safe, yet it is debatable whether they will be able to offer the same performance among the non-asset backed issues.

All this has had the effect of making it increasingly difficult for BES funds to attract investors' attention. The funds have won praise from the Government for tending to invest more in line with its intentions for the scheme than many of the direct issues, yet they have come up against a number of important obstacles. "Public attention has tended to concentrate on direct investments and the funds are seen as a little old hat," says Mr Paul Brooks, director of Charterhouse Investment.

By the end of October, 13 BES funds had raised a combined total of £18.3m, according to the BES Magazine. That compares poorly with the £31.8m pulled in by 25 funds in the corresponding period of last year.

One of the funds' chief marketing problems is that while their first failures are becoming apparent—five of the 220 companies backed by BES funds in 1984-85 have gone out of business—they do not yet have any startling success stories to their credit.

As any venture capitalist knows, bad investments will usually collapse faster than good ones flourish; but it is harder

to get investors to share this philosophical attitude. "We are in the doldrums between the start of the BES and the first fruits of the scheme becoming evident," says Mr Richard Martin, a director of Hodgson Martin Ventures, managers of the First Abbey BES Fund, which raised only £570,000 towards its top target of £2.5m.

The squeeze on fund raising has, however, been felt unevenly through the industry. Well established management groups, typically offshoots of merchant banks like Lazard, have found it far easier to raise money than small outfits like Hodgson Martin. "But we still think we can give a better deal to the smaller companies than the merchant bank funds," says Mr Martin. "With our smaller overheads, we can charge less."

BES management groups have also suffered from the fact that investors cannot claim full tax relief until the fund into which they have put their money is fully invested. If a fund is only partly invested by the end of the tax year, relief is scaled down proportionately, while direct issues can offer tax relief just as soon as they have got the cash, or in the case of start-ups, after four months' trading.

This makes life complicated for fund managers because many BES investors prefer to wait until their tax positions are clear towards the end of the year before deciding whether it is worth their while to subscribe to the scheme.

Funds then face a hectic rush to place their money with small companies before the tax year expires. It is no accident that almost 75 per cent of the £42.3m invested by BES funds in 1984-85 went out between January 1 and April 5, the end of the tax year, according to one industry estimate. Nearly

25 per cent of the total—£10.6m—was invested in the last five days.

Quite apart from putting a horrendous strain on fund managers, this last minute rush increases the risk of making ill-considered investments. Moreover, some fund managers report that potential BES companies are deliberately waiting until the end of the tax year before approaching funds for investment because they know that they will be able to drive a harder bargain with managers desperate to place their money before April 5.

"If the Government was interested in supporting this industry, it would allow tax relief to be available to fund holders once an investment has been made in the fund," says Mr Norman Baldock, managing director of Gresham Trust.

Gresham's latest BES fund recently had to extend its subscription period because it had raised less than its minimum target of £1m by the original closing date—a further sign that this year's funds are facing hard times.

But despite repeated lobbying from Gresham and at least 23 other leading BES fund management groups, the Treasury has so far turned an unsympathetic ear to funds' pleas for more relaxed tax treatment.

One consequence of the pressure on BES funds to invest all their cash by the year end is that they end up with little or no spare cash to supply the second or third rounds of finance that young growing companies will inevitably need.

Mr Tony Shoebridge, fund manager for Baronmead Associates, which recently raised just £780,000 towards its maximum £1.75m target, explains: "The BES provides a single shot equity investment, so unless the client company has access to fresh money later

on, it could experience serious difficulties in raising a second round of finance."

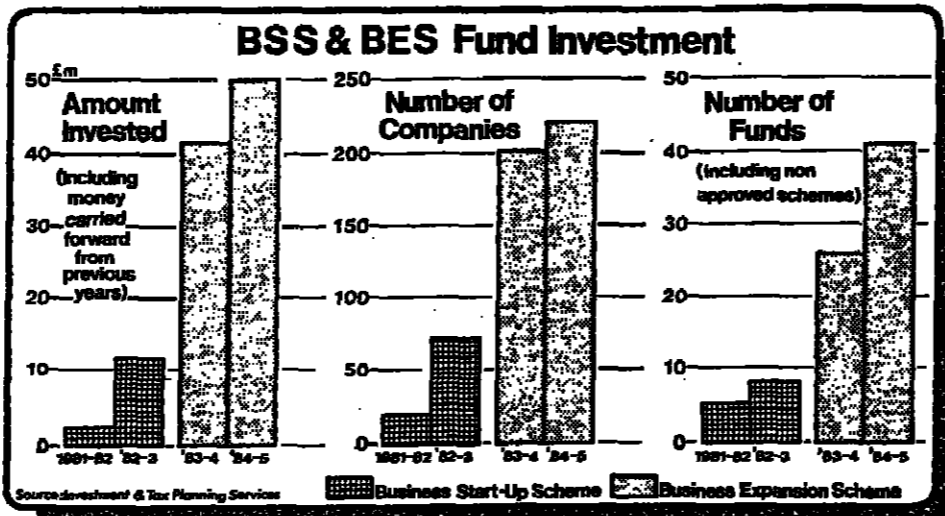
One way round the problem is to bring in later rounds of equity from a conventional venture capital fund associated with the BES management group. Baronmead, for instance, runs a £23m institutional venture capital fund as well as three BES vehicles, a pattern followed by many of its competitors.

BES fund shareholders, however, could well find that their equity stakes are diluted if their funds have to issue extra equity to institutional shareholders. The value of their holdings would be the same, but the fund's earnings would have to be distributed around a larger number of shareholders. Further rounds of fund-raising could also have the effect of increasing the time limit before which BES investors are not permitted to sell their shares.

BES tax relief only applies if investors keep their shares for five years. The fifth year of the scheme—beginning in April 1987—is therefore likely to see a flood of BES shares looking for buyers. It is unclear how easy BES companies will find it to make a market in their shares.

A number of BES groups are already quoted on the over-the-counter markets, but not on the Unlisted Securities Market. Tax relief is withdrawn if a BES company gets a USM quotation within three years.

Several venture capital groups, including Granville and Co and Electra, the investment trust group, are planning to create a separate market in BES shares to be called the BES list. Their discussions are still at an early stage and it is unclear how much to promote more interest in the scheme.



## Feel for local projects

REGIONAL CHAUVINISM is flourishing in the north of England and Mr Michael Denny is proud of it. He is managing director of the Northern Investors Company, which operates venture capital funding in the North-East and Cumbria from offices in Newcastle.

He has £5m of backing from a mixture of 18 private sector companies, 13 pension funds, two banks, one merchant bank and various charities, trusts or other backers, who hold shares in the company. The money is for regional use only, and disburseable in sums from £25,000 upwards.

Mr Denny is chiding of Britain's London-based venture capital funds and companies. He believes they lack the local feel necessary to evaluate many projects, especially the smaller ones.

He says that south-eastern lifestyles have helped raise managerial unit costs so much that national funds cannot afford to invest less than £200,000—returning on smaller sums are not big enough to earn the management's keep.

The views of Alan Payne, another prominent northern venture capitalist, are put more diplomatically but are not substantially different. He runs the only other significant regional fund, covering Lancashire, Merseyside and, from the next few weeks onwards, Cheshire. His fund aims to plug the "equity gap"—the virtual impossibility of raising venture capital in the £20,000 to £200,000 range from "national" funds.

The origins of both funds owe much to the activities of one of Britain's more enthusiastic regional chauvinists, Mr Arthur Ward of the National Enterprise Board, which was later remodelled as the British Technology Group (BTG). In 1982 he got the BTG to put money into an experimental venture capital fund on Merseyside. Meanwhile, the BTG was itself the major source of equity funding for small, expanding companies in the North-East. But last year the Government stopped the BTG playing such a role, on the grounds that it was the private sector's job, not something for a government agency.

The BTG was forced to pull out of the regional fund, which its manager, Mr Payne, reconstituted as the Lancashire and Merseyside Investment Fund (LMIF), securing £1.35m of backing from Lancashire

County Council Superannuation Fund, Lancashire Enterprises—the council's job creation company—the Church Commissioners, Royal Life and Royal Insurance.

In the North-East there was no such vehicle and Mr Ward persuaded Mr Denny, who had built up a group of manufacturing companies, to supervise BTG's disengagement from its local investments, while at the same time setting up Northern Investors to fill the BTG gap. Mr Denny has now sold off his group to work full time at regional venture capitalism.

Mr Payne and Mr Denny have different approaches but, basically, common goals. Each sees the fund he manages as an aid to regional development that has been home-grown. Each has developed mechanisms to pare down overheads so that returns will be generated from small investments that would otherwise fall into the equity gap. By the very nature of

chester-based management consultants, Collinson Grant, which owns the fund's management company, Sapling.

Sapling charges very small fees, having elected to take a share in the eventual profits of the fund, which provides an incentive to make things work. Mr Payne says that this behoves the fund to help clients with management technique and advice if they need it, and he has it on tap at Collinson Grant, which also provides consultants at special rates to help with appraisals.

An intriguing aspect to the fund is that it has compulsory buy-back clauses in its agreements. The client can buy back equity from four years onwards and at eight years the fund can force the sale. This is how it realises its profits: national funds recoup when the client goes public but smaller companies may never get that far.

At Northern Investors, Mr Denny opt rates with no upper limit and will compete directly with national funds for high value projects that are in his area. Northern Investors is not just a fund, but a company which makes profits from investments, bank interest, and fees. In its first year, which ended last September, it made a £278,000 profit and paid £74,000 in dividends to its 60 shareholders.

It kept its overheads down to £160,000, operating with five staff, two of them secretaries, and secondaries from ICI and Spicer and Pegler. The company syndicates investments to particular shareholders, acting as honest broker as well as investing directly. Mr Denny admits that this may make buy-back of equity by the client less likely, but it would not be impossible.

Where both regional funds have to work hard is in selecting likely investments. Both have been overwhelmed with applicants, many of them "duds" trawled round everywhere else first. Mr Payne puts his conversion rate at 2 per cent and Mr Denny says his is 2.5 per cent.

Each has five projects—ranging from a canapes manufacturer and a company making sporting trophies to a shipping line and a corporate communications consultancy specialising in video techniques. Each fund expects to help finance up to half a dozen more enterprises next year.

### Regional Funds

IAN HAMILTON-FAZEY

things, each probably get much closer than national fund managers can to their clients.

Although the amounts LMIF has at present to call on are smaller than those of Northern Investors, Mr Payne says that £5m is the medium-term target. The fund's first year of operation was a success, bringing in £500,000 with it and negotiations are well advanced with two private sector pension funds which are also expected to put up substantial sums.

This will bring the fund to over £2m, and it is changing its name again to reflect Cheshire's involvement. This time the name should stick since it will be the North West Regional Fund. It will also be adding a third office to its existing ones, in Preston and Liverpool, probably at Warrington.

Mr Payne used to operate with an upper limit of £100,000 but this has been doubled, partly to reflect the increasing size of the "equity gap" and partly because the fund is going to have more money available.

Mr Payne keeps down overheads partly through running a tight ship—he has two investment managers, a secretary from Kidson's, the accountants, and one secretary—and partly through a link to the Man-

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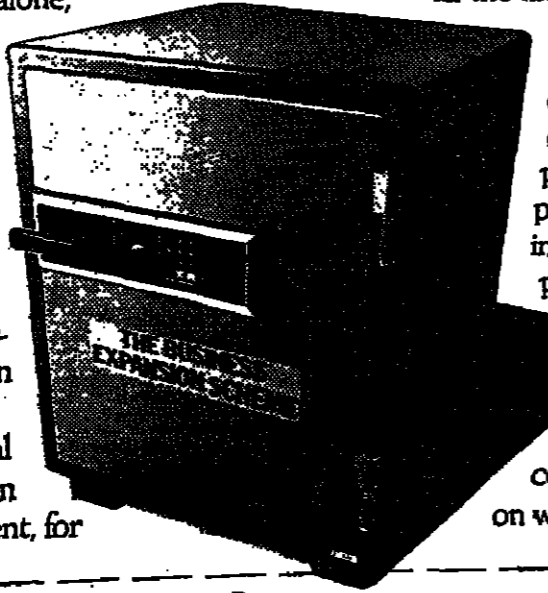
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## Venture Capital 8

### MAJOR SOURCES FOR VENTURE CAPITAL IN THE UK

THE table describes current major sources of venture capital in the UK. It was compiled by accountants Peat, Marwick, in conjunction with Venture Economics, publisher of the UK Venture Capital Journal. It shows there are now more than 130 institutions offering venture capital in the UK. Further information can be

obtained from:  
● Tony Fry, Senior manager in charge of Peat, Marwick's Private Business Unit at 1 Puddle Dock, Blackfriars, London EC4V 3PD. Phone: 01-236 8000.  
● Venture Economics, 37 Thames Road, London W4 3PF. Phone: 01-995 7619.

Fund managers	Range of individual investments considered	Start-up	Develop-ment	Re-plic-able	Man-aging	Res-ources	Equity	Loan	Seal	Term of funding	Telephone
Min	Max	£000	£000	£000	£000	£000	£000	£000	£000		
3i (Investors in Industry) .....	0	5,000	+	+	+	+	+	+	+	Mainly long tm.	01 928 7822
Aberdeen Fund Managers .....	20	300	+	+	+	+	+	+	+	Medium/long	0224 631999
Abingworth .....	100	1,000	+	+	+	+	+	+	+	Flexible	01 633 0745
Advent .....	100	1,500	+	+	+	+	+	+	+	Flexible	01 630 9811
Agricultural Technology .....	250	open	+	+	+	+	+	+	+	5-7 years	0223 321114
Alan Patricof Associates .....	100	3,000	+	+	+	+	+	+	+	5 years	01 493 3623
Allied Irish Investment Company .....	250	1,500	+	+	+	+	+	+	+	Flexible	01 920 9155
Alta Berkeley Associates .....	100	1,500	+	+	+	+	+	+	+	Open	01 629 1550
Avon Enterprise Fund .....	25	500	+	+	+	+	+	+	+	5-10 years	0272 213206
Baillie Gifford and Co. ....	50	open	+	+	+	+	+	+	+	3-5 years	031 225 2581
Bankers Trust .....	250	15,000	+	+	+	+	+	+	+	Up to 10 years	01 726 4141
Barclays Development Capital .....	200	open	+	+	+	+	+	+	+	Flexible	01 623 4321
Barling Brothers Hambrecht and Quist .....	100	1,000	+	+	+	+	+	+	+	Up to 10 years	01 408 0556
Barnes Thomson Management .....	100	400	+	+	+	+	+	+	+	5-7 years	01 408 1326
Baronsmead Associates .....	200	1,500	+	+	+	+	+	+	+	Medium	01 638 6826
Biotechnology Investments .....	200	1,500	+	+	+	+	+	+	+	Long	01 280 5000
Birmingham Technology .....	50	500	+	+	+	+	+	+	+	Up to 5 years	021 359 0981
Britannia Development Capital .....	100	500	+	+	+	+	+	+	+	Open	01 588 2777
British Lines Bank .....	25	500	+	+	+	+	+	+	+	Long	021 243 5462
British Rail Pension Fund .....	250	2,000	+	+	+	+	+	+	+	5-7 years	01 247 7600
British Technology Group .....	0	open	+	+	+	+	+	+	+	5-7 years	01 403 6666
Brown Goldie and Co. ....	200	open	+	+	+	+	+	+	+	5-7 years	01 638 2575
Brown Shipley Developments .....	50	500	+	+	+	+	+	+	+	Flexible	01 606 9832
Burroughes and Co. ....	50	75	+	+	+	+	+	+	+	5 years+	01 480 7216
Camblum Venture Capital .....	3,000	open	+	+	+	+	+	+	+	3-5 years	01 628 5090
Candover Investments .....	50	150	+	+	+	+	+	+	+	Medium/long	0322 436043
Capital for Companies .....	50	350	+	+	+	+	+	+	+	Flexible	01 351 5511
Capital Partners International .....	20	350	+	+	+	+	+	+	+	Medium	0242 584380
Capital Ventures .....	100	1,000	+	+	+	+	+	+	+	Flexible	0603 622200
Castle Finance .....	100	250	+	+	+	+	+	+	+	Medium	01 240 6887
Castleforth Fund Managers .....	100	1,000	+	+	+	+	+	+	+	Medium/long	01 631 3073
Centaur Capital .....	0	500	+	+	+	+	+	+	+	Flexible	01 439 1305
Centaur Communications .....	0	500	+	+	+	+	+	+	+	5 years	021 643 3941
Centreway Development Capital .....	100	500	+	+	+	+	+	+	+	As appropriate	01 248 4000
Charterhouse Development .....	100	5,000	+	+	+	+	+	+	+	5-10 years	01 248 3232
Charterhouse Venture Fund .....	250	1,000	+	+	+	+	+	+	+	Medium/long	01 245 6911
CIN Industrial Investments .....	250	500	+	+	+	+	+	+	+	Flexible	01 438 1280
Citigroup Venture Capital .....	250	open	+	+	+	+	+	+	+	3-7 years	01 283 2341
Close Investment Management .....	150	3,000	+	+	+	+	+	+	+	Open	041 248 7079
Clydesdale Bank Equity .....	50	open	+	+	+	+	+	+	+	5-7 years	01 407 9711
Commonwealth Development Finance Co. ....	300	2,500	+	+	+	+	+	+	+	As appropriate	01 242 1360
County Bank Development Capital .....	100	open	+	+	+	+	+	+	+	Up to 10 years	0722 336255
Cygnus Venture Partners .....	0	2,000	+	+	+	+	+	+	+	As appropriate	01 925 2731
COSIRA (Cacil for Sm. Ind. in Rural Areas) ..	0	75	+	+	+	+	+	+	+	5 years+	01 836 7766
Development Capital Group .....	100	5,000	+	+	+	+	+	+	+	Flexible	01 623 1212
Electra Management .....	500	3,000	+	+	+	+	+	+	+	Flexible	01 606 1000
Electra Management Services .....	200	1,000	+	+	+	+	+	+	+	Long	01 606 2167
English and Caledonian Investment .....	300	1,000	+	+	+	+	+	+	+	5-7 years	0625 532585
Equity Capital for Industry .....	50	open	+	+	+	+	+	+	+	Medium	01 623 4680
Equity Finance Trust .....	25	350	+	+	+	+	+	+	+	10 years	0222 396131
ET Trust .....	100	1,000	+	+	+	+	+	+	+	Medium/long	01 638 5858
F and C Ventures .....	0	50	+	+	+	+	+	+	+	Flexible	01 623 1212
First Welsh General Investment Trust .....	200	open	+	+	+	+	+	+	+	Flexible	01 621 1212
Fleming (Robert) Investment Management .....	150	10,000	+	+	+	+	+	+	+	Long	01 606 6474
Gartmore Investment Management .....	50	500	+	+	+	+	+	+	+	5-7 years	0753 52523
Granville and Co. ....	50	500	+	+	+	+	+	+	+	Flexible	01 623 1212
Gresham Trust .....	200	1,000	+	+	+	+	+	+	+	Long	01 623 9333
Grosvenor Venture Managers .....	200	1,000	+	+	+	+	+	+	+	3-7 years	01 588 2851
Guidehouse .....	50	open	+	+	+	+	+	+	+	5 years	01 638 9011
Guinness Mahon Venture Capital .....	50	open	+	+	+	+	+	+	+	Flexible	01 582 5090
Hambros Bank .....	100	500	+	+	+	+	+	+	+	5-10 years	031 659 6560
Hill Samuel and Co. ....	100	250	+	+	+	+	+	+	+	Medium	0232 232333
Hoare Candover .....	75	300	+	+	+	+	+	+	+	5 years+	01 583 8711
Hoare Octagon .....	50	150	+	+	+	+	+	+	+	Flexible	01 534 2492
Hodgson Martin .....	0	open	+	+	+	+	+	+	+	Flexible	01 539 1145
Industrial Dev. Board for Northern Ireland ..	50	200	+	+	+	+	+	+	+	Flexible	041 294 1321
Industrial Technology Securities .....	50	200	+	+	+	+	+	+	+	Flexible	01 623 8000
Innotech .....	125	500	+	+	+	+	+	+	+	As appropriate	01 831 9991
Innovetec .....	50	500	+	+	+	+	+	+	+	Med. (3-6 yrs.)	01 588 2721
James Finlay Corporation .....	100	open	+	+	+	+	+	+	+	Medium	0232 691031
Kleinwort Benson Development Capital .....	100	open	+	+	+	+	+	+	+	Open	01 588 2323
Lancashire Enterprises .....	100	1,000	+	+	+	+	+	+	+	Flexible	01 623 4275
Larpet Newton and Co. ....	50	7,000	+	+	+	+	+	+	+	Long	041 834 2861
Lazard Brothers and Co. ....	150	open	+	+	+	+	+	+	+	5-7 years	01 600 4585
Leda—Small Business Agency N. Ireland .....	250	3,000	+	+	+	+	+	+	+	Flexible	01 531 9001
Leisure Development .....	0	open	+	+	+	+	+	+	+	5 years	021 226 4021
Leopold Joseph and Partners .....	200	open	+	+	+	+	+	+	+	Medium/long	01 222 5472
Lloyds Development Capital .....	200	open	+	+	+	+	+	+	+	Medium	01 226 2675
London Scottish Finance Corporation .....	25	75	+	+	+	+	+	+	+	Open	01 280 5000
Manufacturers Hanover .....	100	250	+	+	+	+	+	+	+	5 years	01 405 1058
Mathercourt Securities .....	25	4,000	+	+	+	+	+	+	+	Medium/long	0772 264382
Mercia Venture Capital .....	25	250	+	+	+	+	+	+	+	Flexible	01 351 5867
Mercerside Enterprise .....	50	250	+	+	+	+	+	+	+	Long	0272 272250
Midland Bank Equity Group .....	5	open	+	+	+	+	+	+	+	As appropriate	021 236 5801
MIM .....	100	3,000	+	+	+	+	+	+	+	Open	0532 439073
Minster Trust .....	150	open	+	+	+	+	+	+	+	10 years	09278 5199
Morris, Stewart-Brown and Co. ....	100	1,000	+	+	+	+	+	+	+	5 years	0603 862271
MTI Managers .....	25	2,500	+	+	+	+	+	+	+	Flexible	0744 696775
Murray Johnstone .....	25	300	+	+	+	+	+	+	+	Open	031 226 3271
Myshall Trust .....	25	300	+	+	+	+	+	+	+	Long	021 236 5801
Newmarket Venture Capital .....	200	500	+	+	+	+	+	+	+	Medium	01 283 5707
Noble and Co. ....	25	open	+	+	+	+	+	+	+	Long Term	01 629 5983
Noble Grossart Investments .....	25	open	+	+	+	+	+	+	+	5 years+	0962 53203
Northern Investors Company .....	30	500	+	+	+	+	+	+	+	Medium	01 839 2265
Northern Ireland Venture Capital .....	100	500	+	+	+	+	+	+	+	Open	01 491 4809
Norland Management Holdings .....	50	1,000	+	+	+	+	+	+	+	5 years	01 489 0021
PA Developments .....	50	1,000	+	+	+	+	+	+	+	Open	01 486 4684
Parsons Fund Management .....	200	500	+	+	+	+	+	+	+	Flexible	0232 246765
Prelude Technology Investments .....	100	2,000	+	+	+	+	+	+	+	As appropriate	0232 228490
Prutec .....	200	3,000	+	+	+	+	+	+	+	Flexible	01 351 5867
Proventure .....	50	1,000	+	+	+	+	+	+	+	3-10 years	01 638 2521
Quayle Munro .....	50	250	+	+	+	+	+	+	+	Flexible	031 226 9677
Quester Capital Management .....	50	250	+	+	+	+	+	+	+	Medium/long	031 226 7011
Rainford Venture Capital .....	50	50	+	+	+	+	+	+	+	Medium	0632 327065
Rank Xerox Pension Fund .....	100	1,000	+	+	+	+	+	+	+	Medium	0232 755777
Rothschild Ventures .....	30	250	+	+	+	+	+	+	+	5 years	0488 83555
Sabreline .....	20	250	+	+	+	+	+	+	+	Medium/long	01 235 6060
Sapling (North West) .....	25	10,000	+	+	+	+	+	+	+	5 years	041 232 8781
Schroders Ventures .....	25	1,000	+	+	+	+	+	+	+	Open	01 405 9222
Scottish Development Agency .....	0	1,000	+	+	+	+	+	+	+	Flexible	01 404 5611
Seedcorn Capital .....	10	40	+	+	+	+	+	+	+	5 years	031 226 4421
Sharp Technology Fund .....	100	750	+	+	+	+	+	+	+	Medium/long	01 222 5472
Singer and Friedlander .....	150	300	+	+	+	+	+	+	+	Medium	0244 32227
Southdown Investments .....	10	50	+	+	+	+	+	+	+	Open	01 226 2675
South Glamorgan Investments .....	25	100	+	+	+	+	+	+	+	5 years	01 280 5000
South West Venture Capital .....	25	60	+	+	+	+	+	+	+	5 years	01 405 1058
St Helens BES Syndicates .....	80	850	+	+	+	+	+	+	+	Medium	0772 264382
Stewart Ivory and Co. ....	200	750	+	+	+	+	+	+	+	Flexible	01 351 5867
SUMIT .....	50	1,500	+	+	+	+	+	+	+	Long	041 248

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# FINANCIAL TIMES

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## Brown Boveri tightens control of German unit

By WILLIAM DUFFORCE IN BADEN, SWITZERLAND

**BROWN BOVERI**, the Swiss electrical engineering group, is planning to bring its West German subsidiary more firmly under the control of group management in Baden, Switzerland.

Brown Boveri Switzerland holds 65 per cent of the stock of Brown Boveri Mannheim, having built up its holding from 56 per cent through recent purchases. It is now offering DM 310 (S123) a share to other stockholders with the aim of raising its stake to 75 per cent before the annual meeting of the German company on March 8. The offer is valid until January 7.

The price was DM 298 a share when trading was suspended in Germany on Thursday, pending yesterday's group board meeting. The cost to Brown Boveri Switzerland of raising its holding to 75 per cent is estimated at Sfr 150m (S72m).

The Swiss group also plans far-reaching reorganisation - the first significant action taken by Dr Fritz Leutwiler, the former president of the Swiss National Bank who was appointed last May to shake up the

"sleeping giant." The group had been running at loss before recording a modest consolidated net profit of Sfr 85m on sales of Sfr 11.2bn last year.

The existing organisation of the group did not meet the demands now being made on it, Dr Leutwiler said. Group companies abroad run as separate profit centres had been giving higher priority to their own interests, stopping the group acting on common front and preventing the global optimisation of corporate resources.

By next autumn, the business activities of the group are to be split into 24 divisions extending across national boundaries. The divisions will be marshalled into six segments, each headed by a member of the group management.

Brown Boveri has already reduced the capacity of its core power generating and power distribution businesses by about half, but this is considered insufficient in face of today's weak markets.

Emphasis will shift to growth areas in other markets in which the group has developed technological

expertise. These include offshore installations, water sterilisation plants, district heating, transport and information technology.

It would not be easy to offset the lack of orders for power generating plant, worth between Sfr 500m and Sfr 1bn each, with new products from these sectors, Mr Pierre Hummel, chief executive, said. This was one of the most important reasons for the restructuring.

Consolidated net earnings are expected to grow in 1985 but not by as much as last year, when Brown Boveri posted a Sfr 85m net profit against an undisclosed loss in 1983.

A strong increase in sales from last year's Sfr 11.2bn will be achieved thanks largely to the invoicing in the last quarter of an order for a high-temperature nuclear reactor in West Germany.

Consolidated sales in the first nine months amount to Sfr 7.7bn - Sfr 100m more than in the previous year.

Orders received during the period totalled Sfr 9.2bn compared with Sfr 8.4bn for the same period a year earlier.

## Finnish pulp groups to merge

By Olli Virtanen in Helsinki

**KYMI-STROMBERG**, the Finnish forest-industry and power-technology group, is to take over Kaukas, one of Finland's leading forest-industry companies. The agreed merger will make Kymi the third biggest industrial concern in Finland.

Kymi said yesterday that it controlled 45 per cent of Kaukas and offered to swap the remaining 55 per cent for its own shares. Kymi did not disclose on what terms it accumulated its holding.

The single biggest shareholder in Kaukas, the Swedish forest-industry group Stora, sold its 8 per cent holding to Kymi for Sfr 5m in cash.

Kaukas is much the smaller of the two. It has been the most profitable Finnish forest industry company for two years running.

Last year it made a FM 288m (S33m) net profit on turnover of FM 1.5bn. The corresponding figures for Kymi were FM 105m and FM 5.24bn.

The reorganisation of Finland's forest industry is the main reason for the merger. Both companies are financed by Union Bank of Finland, which is seen as being behind the move. Mr Mika Tiivola, UBF chairman, is also chairman of Kymi's supervisory board.

The combined sales of forest-industry products of the two companies reached FM 6bn last year, which will make the group a close second to the country's leading forest-industry company, Enso-Gutzeit (FM 6.5bn).

Kymi produced 664,000 tonnes of paper and board last year and Kaukas reached 331,000 tonnes in its best year. Kymi's pulp production rose to 334,000 tonnes and Kaukas's to 325,000 tonnes.

Their combined paper and board-making capacity stands at 1.5m tonnes and their pulp production can reach 669,000 tonnes.

## Bond buyers back off for year end

**EUROBOND** investors are slowing down their purchases for the year end, but new issue activity continues apace, writes Maggie Urry in London.

Some of the issues now being launched have payment dates in the new year, when buyers may once again have cash to invest.

Bell Group, the Australian media-resources company, launched its expected convertible bond issue, the first in the Euro-Australian dollar market. The A\$75m issue, led by Swiss Bank Corporation International, has a 10-year maturity with an indicated 10-11 per cent coupon and 18-20 per cent conversion premium. Issue price is par.

The deal is part of a A\$180m package. Another A\$75m of convertible bonds, on similar terms but not fungible with the Eurobond issue, is being placed in Australia. It is thought that Mr Robert Holmes à Court, the Bell Group chairman, is buying the whole of the Australian domestic portion of the issue. There is also an international share placing of 2.62m shares to raise around A\$30m. The final terms on the bond and share issues will be set on December 10.

The Eurobonds carry fees of 3/4 per cent and the lead manager was quoting the issue at the issue price.

Bell Group also announced in Australia that its holding in BHP had risen to 17.07 per cent, part of which is in the form of options.

Two deals were launched in the Eurodollar bond market and many more were under discussion. Yesterday the Inter-American Development Bank (IADB) launched a \$200m 10-year issue led by Morgan Guaranty. This has a 9 per cent coupon and par issue price, and with fees of 2 per cent the borrower's cost was 38 basis points above US Treasury yields at the launch. That looked a fair margin and the bonds were trading inside the fees at around 98 1/4.

Citibank was the other borrower with a \$150m three-year issue, maturing in January 1989. Goldman Sachs priced it with a 9 per cent coupon and 10 1/4 issue price, terms which dealers regarded as aggressive. Fees total 1 1/4 per cent and at the close the bonds were bid at that discount.

Eurodollar bonds weakened yesterday afternoon after a firmer start when the New York bond market opened softer.

Two yen dual currency issues were launched yesterday following three last week. Nomura International brought a ¥22bn deal for Österreichische Industrieverwal-

tung which is guaranteed by Austria. The funds will be swept into fixed-rate D-Marks. The 10-year issue has an 8 per cent coupon and 10 1/4 issue price. Redemption will be in yen at the equivalent of \$5,479.45 per ¥1m bond.

Yamaichi International (Europe) set terms for Swedish Export Credit's ¥20bn 10-year deal at an 8 per cent coupon and 10 1/4 issue price. Redemption will be in dollars at an exchange rate of ¥161.50 to the dollar.

Late in the day Brown Shipley, the UK bank, made its debut in the Ecu market with a Ecu 30m eight-year issue led by Banque Générale du Luxembourg. This has a 9 per cent coupon and par issue price. Fees total 2 per cent.

The D-Mark sector had its share of the action with three deals launched. Most popular were two equity-linked issues. A DM 250m issue with equity warrants was launched by Deutsche Bank for VW International Finance, part of the Volkswagen car manufacturing group. The 10-year bonds have a 3 per cent coupon and par issue price and each DM 1,000 bond has warrants to buy three shares. The bonds-with-warrants were trading above 104.

The other equity-linked deal was

for Credit Suisse Finance (Panama) and carries warrants to buy bearer participation certificates in Elektro-watt, the Swiss electricals company. There is a simultaneous Sfr 150m bond issue with warrants on the Swiss domestic market. The DM 150m issue has a 10-year maturity and the coupon was set at 2 1/2 per cent with issue price at par. Each DM 1,000 bond has two warrants. The package was trading at 105 1/2. Lead manager is CSFB-Efficientbank.

A straight issue came from CPC International, the US food group. The DM 200m deal has a 15-year life, considered long in this market, and the coupon at 6 per cent looked on the low side, dealers said. The issue, led by DG Bank, was trading around 98 compared with the par issue price and fees of 2 1/2 per cent.

The D-Mark secondary market was slightly firmer where changed in moderate volume. Here, too, the focus is on equity-linked issues.

The IADB also launched an issue in the Swiss franc foreign bond market. Bank Leu is leading the Sfr 150m seven-year deal which is expected to have a 5 1/2 per cent coupon and 98 1/4 issue price.

International bond service, Page 20

## Deutsche Babcock profit edges ahead

By Rupert Cornwell in Bonn

**DEUTSCHE BABCOCK**, the leading West German power and engineering group, yesterday reported a slight improvement in profits for the financial year to September, despite a further tumble in sales.

In the year to the end of September 1984, the company managed a profit of DM 28.1m (S11.2m) enabling it to resume dividends to ordinary shareholders after an interruption of two years. Despite his indication of a small rise in earnings, Mr Helmut Wieden, Babcock's chief executive, gave no clue what stockholders might expect for 1984-85, after the previous year's payment of DM 3 per DM 50 nominal ordinary share.

Because no major orders were completed last year, sales fell sharply to DM 5.1bn from DM 6.5bn in 1983-84, and a high of over DM 8bn in the year to September 1983.

## Henkel, Schering drop US merger

By JOHN DAVIES IN FRANKFURT

**HENKEL** and Schering, the West German chemical groups, have failed to agree on a plan for Schering to take over Henkel's polymer resin and fine-chemicals divisions in the US.

Henkel, which disclosed yesterday that the two companies could not agree on a price, said it intended now to retain and build up the activities.

Only a few weeks ago, Henkel confirmed that it was talking to Schering about the two divisions, and Schering announced that it intended to take them over and incorporate them into its Sherez subsidiary in the US. A purchase price of about \$70m was reportedly under discussion.

The operations, with sales revenue of \$80m a year, were described by Henkel at the time as outside its main US activities. Henkel has been restructuring its chemical operations in the US, which produced about 10 per cent of its DM 9.34bn sales revenue last year.

Schering is preparing to market its oral contraceptives in the US after having established itself as the market leader in such products in Europe.

It was attracted to the Henkel operations partly because they would yield steroids, an essential raw mate-

rial for Schering in making steroid hormones.

Henkel meanwhile is buying the Gruenau subsidiary of Degussa, the precious metals and chemical concern. Gruenau, with sales revenue of DM 180m (S17.7m) a year and 610 employees, produces chemicals for a wide range of uses, including food additives.

Henkel said the move, which still has to be approved by the Federal Cartel Office, would widen its range in some product areas, as well as being a further diversification in fine chemicals.

● Rütgerswerke, the West German chemical company, is raising just under DM 60m in a two-for-11 rights issue at DM 150 a share.

Professor Heinz-Gerhard Franck, chief executive, said yesterday that group sales revenue rose 5 per cent to DM 2.78m in the first 10 months of this year and earnings reached a record level.

● BASF, the big West German chemical group, has finalised the takeover of the Sandoz plant at Teesside in the UK from Monsanto of the US. The plant, which produces chemicals used in making fibres, is one of a series of acquisitions abroad by the Ludwigshafen-based concern this year.

## Mannesmann to lift spending

By JONATHAN CARR IN DÜSSELDORF

**MANNESMANN**, the West German engineering concern which has already announced higher sales and profits for the first half-year, is raising investment next year to DM 863m (S343m) from DM 788m in 1985.

The company said that DM 788m of the total would go to fixed-asset spending - DM 488m of that in West Germany - and another DM 80m would be for financial investment.

Of the fixed-asset investment, DM 353m is earmarked for exten-

sion and modernisation in the plant and machinery divisions (including Demag and Rexroth). Another DM 85m would go to Hartmann and Braun, which produces electronic process plant controls, and to Kienzle, the group's data systems company.

Of the sum earmarked for foreign investment, the biggest single amount, of DM 178m, would go to Brazil. Last year Mannesmann raised the turnover of its Brazilian offshoot by 63 per cent to DM 1.2bn.

## Control Data sells finance portfolio

By Paul Taylor in New York

**CONTROL DATA**, the financially troubled Minneapolis-based computer and computer products group, has sold the direct equipment finance portfolio of its Commercial Credit financial services subsidiary to Sumit Bank of Tokyo.

The US group, which last month cancelled its quarterly dividend and is negotiating with its bank lenders on \$383m of short-term debt which is in technical default, did not disclose the terms of the deal. But it said that the portfolio was valued at more than \$120m.

Control Data has been plagued by losses and write-offs, mainly in its computer peripherals division. It is in the middle of a big reorganisation, including substantial asset sales, intended to conserve cash, bring a return to profitability and reassure its bankers.

The group has already sold to various buyers sizeable chunks of its profitable Commercial Credit subsidiary's loan portfolio, including its entire \$750m mortgage servicing portfolio, the Commercial Credit services unit and the Commercial Credit business loans unit.

Earlier this year, Control Data cancelled a plan to sell the whole of Commercial Credit, which offers a wide range of financial services

## Hungary to reduce borrowing next year

By ALEXANDER NICOLL IN LONDON

**HUNGARY** expects to borrow about \$1bn next year, about half this year's total, Mr Janos Fekete, first vice-president of the National Bank of Hungary, said in London yesterday.

He was speaking before the signing of a \$400m credit including a \$100m note issuance facility, the first for an East European borrower. The borrower plans to test its name in the markets by arranging an issue of notes over the next few months, though Mr Fekete said the money was not needed at present and was designed to provide flexibility in handling next year's imports.

In order to obtain cheaper finance, Hungary has been pre-pay-

ing and replacing loans which included clauses allowing it to do so.

Mr Fekete said Hungary is discussing a structural adjustment loan from the World Bank to help it reorganise the chemical industry. Further World Bank co-financing, of which Hungary was a pioneer, may also be considered.

The loan signed yesterday, comprising a \$150m seven-year credit and a \$150m bankers' acceptance facility as well as the \$100m issuance facility, involves about 40 banks led by Bankers Trust International, Dai-ichi Kangyo Bank and First Chicago. The margin of 1/4 percentage points above London interbank offered rates (Libor) is the lowest the borrower has paid.

## Freddie's mines group may be split in two

By KENNETH MARSTON IN LONDON

**SOUTH AFRICA'S** Free State Development and Investment (Freddie's) mining finance house in the Johannesburg Consolidated Investment (Johannes) group is readying itself for the possible exploitation of the areas where it holds mineral rights. That would require significant amounts of risk capital.

The plan put forward effectively splits the existing Freddie's into two companies. One will be a new listed company - to be called DAB Investments (Dabi). It will hold the existing Rbn (S2.5m) investment portfolio, mainly of dividend-paying mining shares.

The other company will be the on-going Freddie's, without its investments and holding only the

mineral rights, which are to be increased by the acquisition of Southern Holdings (Proprietary). Freddie's will become a pure exploration company with virtually no income.

Present holders of Freddie's will be given shares in Dabi on a one-for-one basis. Each 50 cents share in Freddie's will then be split into five shares of 10 cents. A holder of 100 Freddie's will end up with 500 shares plus 100 shares of Dabi.

Because both companies may be traded in the stock market, the plan will allow investors to choose the degree to which they wish to spread their money between the "safe" Dabi investment company and the more exciting but more speculative Freddie's.

## Hypobank set for record

By Jonathan Carr in Frankfurt

**BAYERISCHE Hypotheken- und Wechselbank (Hypo)**, the big Bavarian bank, is heading for a year of record earnings after raising its operating profit by 7.1 per cent in the first 10 months.

For 1984, the bank raised its dividend from DM 9 to DM 10 and paid a DM 2.50 bonus. It has so far made no comment on the possible level for 1985.

The most of its rivals, Hypo is lifting greatly from the boom in the share and bond markets - raising its earnings from commissions in the first 10 months by 30.7 per cent to DM 228.8m (S91m).

Profits from interest business were up by 6.3 per cent to DM 1.3bn. In contrast to many other German banks, Hypo was able to increase its average interest margin, although it gave no details. Partial operating profit (excluding earnings from own-account trading) rose by 12 per cent to DM 709.1m.

## LONG WAIT TO JOIN JAPAN'S STOCK EXCHANGE PAYS OFF

# Merrill's sweet victory in Tokyo

By CARLA RAOPOORT IN TOKYO

**MORGAN STANLEY**, the US investment bank, began advertising in Tokyo newspapers yesterday for experienced stock exchange floor traders. One floor below Morgan Stanley's Tokyo offices in the gleaming Ote Center skyscraper, Merrill Lynch executives were already introducing newly-recruited floor traders to the rest of the staff.

"We've been waiting for this since 1972," said Mr Tetsundo Iwakuni, chairman of Merrill Lynch Japan. He was referring to Friday's announcement that six foreign firms, including Merrill Lynch and Morgan Stanley, would become the first foreign members of the Tokyo stock exchange early next year.

For Merrill, Friday's announcement was a sweet victory. Almost exactly a year ago, it decided against paying what it decided was an exorbitant fee for a seat on the Tokyo stock exchange. Instead, it pressed for an expansion in the exchange's membership, so that a number of foreign firms could join at a reasonable price. Both concessions have since been made. The re-

sult, according to Mr Iwakuni, proves that Japan is not as conservative as it seems.

"Merrill Lynch was the only firm speaking loudly and frequently, with almost no followers," claimed Mr Iwakuni yesterday. Among those granted seats, he says, are companies which created a "cold climate" during Merrill's long campaign.

"I can see why they changed their minds [and applied for membership]," he says with a smile. The concept of a 24-hour worldwide stock market, he says, will become a reality in October 1988, when London opens up to foreign members. "Because of the London 'Big Bang', Tokyo became more important," says Mr Iwakuni.

More and more securities firms, he says, will need to have bases in London, Tokyo and New York as the 24-hour market develops.

The new foreign members, including Vickers de Costa, Goldman Sachs, S. G. Warburg and Jardine Fleming, also have the advantage of bringing US and European equity

knowledge to Tokyo investors, according to Mr Iwakuni. He points to the growing number of US companies listed in Tokyo. "We cover these companies in depth; we make the market in these stocks. It's quite natural that we should handle their trading," he says.

At present foreign firms must buy and sell stocks in Tokyo through Japanese agents parting with 37 per cent of their commission in the process. Mr Iwakuni is optimistic that commission revenue will increase dramatically for Merrill Lynch once it is trading on its own account.

This year, he says, gross commissions will be between \$6m and \$7m. Next year it will climb to \$12 to \$14m, and \$20m in 1987. In addition to equity trading, Mr Iwakuni expects his firm to get into underwriting and the mergers and acquisitions business in Japan. One of its clients is Minebea, the ball-bearing manufacturer which is attempting a hostile takeover of a Japanese precision instruments company.

Other new members of the stock exchange are less optimistic. They

point out that the fixed commission in Tokyo may go the way it has in the US and London.

"Will the negotiated commission come to Japan? This question is why we took such a long time to make up our minds about applying [for a seat]," says Mr Satoru Saitoh, general manager at Jardine Fleming, the Hong Kong based joint venture between Robert Fleming of the UK and Jardine Matheson in Hong Kong. JF is the largest trader of equities among foreign firms in Japan. "In the long run it's inevitable," he concludes.

Mr Iwakuni disagrees. Drawing on his 25 years experience in the Japanese securities business (18 years with Nikko Securities and seven with Morgan Stanley), he says confidently: "Japan today is very different from the US in 1975. Here, the big four securities firms are very powerful. If you drop fixed commissions, they will have even more control and more small firms will be in trouble. I know many people think we should go to a free system like the US, but I think it will never happen," he says.

NEW ISSUE

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## INTL. COMPANIES & FINANCE

### Israel's electronics innovators show signs of vulnerability

ISRAELI companies have always believed they have the brains to compete with the best, but the most successful have also decided to limit their ambitions.

In the area of high technology, this peculiar blend of confidence and prudence has resulted in an industry tailored strictly to specific needs. Innovators recognise that, in a world dominated by big companies of the US, Japan and Western Europe, the only viable option for a small country is the location and occupation of a vacant niche.

Around this premise, companies like Elscint, Scitex, Tadiran, Laser Industries and Elbit have grown. Each is a specialist. None, until recently, has tried to steal the show.

The result for Israel has been a vibrant young industry, strong in research and development, cautious on production. Yet, while the reputation of Israeli electronic engineers and technicians has never been higher, the temptation by top managers to accelerate into new areas is growing and the risk of overstretching is real.

At the same time, the lack of a large industrial infrastructure, deriving in part from past specialisation, has led to a growing exodus of graduates and technicians from Israel to the US. In Silicon Valley, they say, the second language is Hebrew.

Foremost among the newly troubled ventures is Elscint, Haifa-based manufacturer of medical imaging equipment, with a workforce of 2,500.

Elscint, which has 8 per cent of the world market for medical imagers, was founded by a group of eager young graduates in 1968. But as sales peaked, profits fell and a 1984-85 net loss of \$33m was followed by a further deficit of \$15m in the first three months of the current year.

It had bank debts of about \$150m and faces large-scale additional repayments in respect of \$70m worth of bonds issued, in return for tax advantages, to a selection of Israeli investors.

Heavy and prolonged marketing of a broadened product range, together with too rapid plant expansion, is blamed for the deterioration, which led this year to the resignation of Mr Avraham Suhani, the

founder-chairman, and his replacement by Mr Uri Galil, head of Elron Electronics.

Elron, a holding company, has a stake in Elscint of 29 per cent. Elscint shares are quoted not only in Tel Aviv, uniquely for an Israeli enterprise, they are also traded on the New York Stock Exchange.

Under Elron's supervision recovery is under way, and significant new sales have been made this summer in the US. Nevertheless, jobs have been cut and targets reduced. For the flagship of Israeli high-tech to be forced publicly to trim its sails was a sure sign of stormy waters.

Scitex, of Herzliya, another of the high-technology leaders, is facing key decisions. In spite of its considerable success in the competitive field of computer graphics, which have made it one of Israel's most formidable exporters to the US, Europe, and even Japan, Scitex announced earlier this year that it might have to shelve ambitious plans for expansion.

The company, like most Israeli high-technology concerns, has raised nearly all its investment capital in the US.

This year, in a bid to raise funds that would enable it to increase its 1,800-strong workforce substantially, and double sales to \$200m, it decided to look closer to home. First, though it had to pressure the Government into easing newly amended tax regulations covering individual investment in industry through bonds. Success was only partial, then it drew up a prospectus for its first local stock issue. The results of both initiatives are keenly awaited.

Meanwhile, Scitex says that third quarter earnings this year are likely to be hit by cuts in state R and D funding and reduced export cover. Recruitment of technical staff over the past 12 months has been "highly selective," it adds, and sales are not expected to reach \$200m before 1987.

Elscint and Scitex are heavily dependent on exports—

the home market for their sophisticated products is negligible. This provides a measure of protection from economic hardship within Israel but also means an expensive series of export promotions and R and D based largely on the perceived needs of foreign markets.

An example of what can be achieved in a large and reliable home market is provided by Elbit of Haifa, another Elron associate, which designs and builds electronic systems with civil and military applications. Elbit's biggest customer is, not surprisingly, the Israeli defence establishment, and the resultant export spin-off is considerable.

With 2,100 workers, orders valued at \$300m and sales this year likely to exceed \$150m.

Elbit is well placed. The one blot on the trading picture is the possible cancellation of the proposed Lavi jet fighter, to be produced with cash and specialist help from the US. Elbit would expect a major share in the Lavi, and would suffer if the project were to be aborted.

Tadiran, Israel's largest high-technology venture, also started life providing equipment for the armed forces. It first established a reputation through its improvements to military communications systems built under licence. Subsequently, it grew by applying raw talent to a bewildering array of highly specialist areas.

With 11,500 employees, including 4,000 researchers, it is probably big enough to make whatever it chooses. However, it concentrates on doing what it does best: developing and building specialist systems for sale around the world. Its primary batteries are market leaders: so are several of its control and imaging devices. With total sales in 1984 of \$570m and exports to the US alone this year likely to double to \$120m, the Tel Aviv concern has shown that the secret of

success is as much precision in marketing as in technology.

Tadiran began life in 1981 at the start of a protracted economic boom, but the climate has altered radically since. Today, despite US and Israeli Government assistance, companies large and small alike face record interest rates at home and an increased requirement to sell competitively abroad, which makes them vulnerable.

Mr Joseph Morgenstern, a Tel Aviv consultant, believes that the sector's development has been assisted by the 30 per cent shrinkage in real wages resulting from the Government's continuing pay freeze. He adds, however, that this advantage is more than offset by the "unbelievably high" cost of financing. Interest rates of up to 100 per cent annually in real terms are a dilemma for established and would-be entrepreneurs alike. But if costs are high and expansion into the big league is difficult, the loss of trained manpower to the US is just as worrying.

The fact is that there are simply not enough jobs to satisfy the needs each year of the thousands of graduates pouring out of the universities, and in particular the prestigious Israel Institute of Technology (the Technion). Most companies have had to cut back sharply on recruiting, and a significant proportion of manufacturing is in any case already concentrated overseas.

Salaries in Israel have also lagged behind, helping companies in the short term, but providing little incentive to specialists to stay at home.

Ministers are disturbed about the situation and are trying to reverse the trend.

Israel may have to make up its mind soon what it wants the sector to become, if it wants to proceed mainly as a provider of specialist equipment, based on high quality R & D, it will undoubtedly enjoy continuing respect and a level of commercial success relative to its size.

If, on the other hand, it hopes to grow and expand into primary areas, it has to build up both the capital and the infrastructure with which to meet the competition. Jewish brainpower, a much repeated phrase, will not be enough.

### Danish credit group to seek UK funding

By Hilary Barnes in Copenhagen

KREDITFORENING Danmark (KD), Denmark's largest mortgage credit association, is proposing to go to the British market to finance housing construction by Danish companies, according to Mr Allan Bonnis, deputy general manager.

Denmark's mortgage credit associations finance property by lending money raised through the issue of bonds. The property represents security and no account is taken of borrowers' creditworthiness.

Almost all Danish real-estate sales are financed by that means. Denmark has one of the largest bond markets in Europe and the Danish associations are owned by the borrowers.

KD has already financed some housing construction by Danish firms in West Germany. It is considering entering the French, Portuguese and US markets.

The development follows a change in Danish legislation in June enabling Danish mortgage credit associations to finance property in member countries of the Organisation for Economic Co-operation and Development (OECD).

They may, however, only finance property abroad up to a maximum of 5 per cent of their reserves, a limit that the associations want the Government to raise. KD's reserves total about Dkr 12bn (\$1.3bn).

KD still needs the Bank of England's approval before it can go ahead in the UK, but expects to receive that in the new year.

Mr Bonnis said KD would finance construction by Danish companies working in the UK, primarily on housing.

### Nordisk warns Copenhagen

By Our Copenhagen Correspondent

NORDISK GENTOFTE, the world's third largest insulin producer, has warned the Danish environmental authorities that unless it receives permission to go ahead with the production of a human growth hormone within two weeks it will consider arranging for production by the Wellcome Foundation in the UK.

The growth hormone will be produced by gene-splicing technology. Nordisk is engaged in a race with KabiVitrum, Sweden, and Genentech, of the US, to introduce the hormone.

Nordisk has already received preliminary approval for production in Copenhagen but the start-up has been delayed over an appeal by an ecologist group against the decision to permit production.

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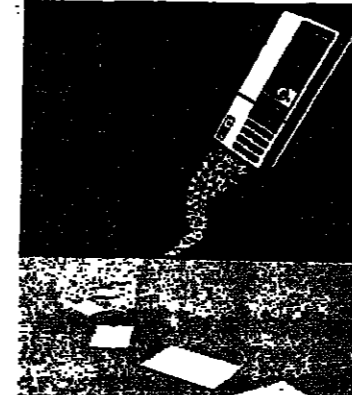
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## INTL. COMPANIES &amp; FINANCE

Chris Sherwell on the widespread impact of a corporate collapse

## Pan-Electric shakes Singapore

WHEN SHARE trading in Pan-Electric Industries was suspended in Singapore and Kuala Lumpur two weeks ago, no one doubted that the marine salvage and property group was in financial trouble. Rumours had been flying around for a while in the two congenitally gossipy markets, and it quickly emerged that the company had defaulted on a S\$7.5m (US\$3.6m) debt repayment, part of a larger loan of about S\$75m.

What no one outside a tiny circle realised until a few days later, was how widespread the impact of any collapse would be. Not only were other quoted companies at risk—notably Growth Industrial Holdings and Sigma International, shares in which were also suspended—but also a number of broking firms and, in the most apocalyptic view, the whole stock market.

The reason, as Pan-Electric's bank creditors had discovered for themselves before the default, was the existence of at least S\$140m worth of obligations on the part of Pan-Electric and its subsidiaries to buy up shares on a forward basis. The group had been laden with commitments it couldn't meet.

Last weekend, after 11 days of abortive rescue talks, the banks decided to put in a receiver. The Singapore Stock Exchange quickly suspended all dealings before yesterday's expected re-opening because defaults on these contracts and an unknown number of others—all part of customary practice in Singapore and Kuala Lumpur—threatened to bring the whole house down.

The discovery of Pan-Electric's forward share commitments came when three banks—Standard Chartered, Merchant Bank Citibank and Banque Paribas—were preparing to underwrite a rights issue to raise S\$84m and help reduce the company's enormously increased bank borrowings.

The borrowings, it turned out, had been used indirectly for share transactions quite outside Pan-Electric's mainstream activities. The obligations so created involved shares in Grand United Holdings and Supreme Corporation, part of the stable of companies controlled by Mr Tan Koon Swan, a Malaysian entrepreneur recently turned politician.

Mr Tan, who since earlier this year has held a 22.6 per cent stake in Pan-Electric through Sigma, seemed initially to be under no obligation to get involved in a rescue. After all, he had apparently become interested in the company only recently, and had no manage-

ment involvement. Yet he stepped in to help, and it remains a mystery even now why he did.

One key factor, however, was that, at the time the crisis broke, he was about to become leader of Malaysia's main Chinese political party, and could not afford any embarrassment before an election which is certain to lead to a Cabinet position. A second is that the Pan-Electric obligations involved enough shares in his own companies to threaten his control over their share prices.

This was important because many entrepreneurs and speculators in Singapore and Kuala Lumpur lend and borrow cash on the basis of shares as collateral. Central to this credit creation are the brokers, who act as mini-banks and make money from the interest they charge as well as commissions. Just as significant, their practice of agreeing purchases

share offer by Singapore International Airlines, the island state's national flag carrier.

Within a few days, the "basis of an agreement" was reached, to be recommended to all the creditors. The plan involved an injection of S\$40m by Mr Tan and his guaranteeing S\$100m-worth of forward contracts by last Friday. The banks, for their part, were to agree on a 12-month moratorium on Pan-Electric's capital repayments and a reduction in interest charges.

This in turn was supposed to lead to a full-scale study of the company's books by Price Waterhouse, the accounting firm and a financial restructuring which was likely to involve a larger rights issue, a debt-to-equity conversion, and almost certainly a change of Pan-Electric's management. That matters had got that far was almost entirely due to the

share offer by Singapore International Airlines, the island state's national flag carrier.

When the end came last Saturday, the banks also appeared to have lost their faith in Mr Tan and his advisers, N. M. Rothschild (for Sigma) and Singapore International Merchant Bankers (for Mr Tan himself).

They said Mr Tan had not performed in full certain actions he had agreed to—a reference to his eventual decision not to "take out" Pan-Electric's forward contracts. They also spoke of a "legal impediment" he had raised at the last minute, which for the banks was obviously the final straw.

On Sunday night Mr Tan denied responsibility for the breakdown. He maintains that the true value of forward contracts involving his companies had been found to be less than S\$140m, and that the remainder involved companies in which he had no part. As for the legal hitch, this turned out to be a law which prevented him channelling money to Pan-Electric via Sigma.

There had also been disagreement between the two sides over the preferential status of Mr Tan's loan in relation to the banks' loans, and this too ultimately made reconciliation impossible. The Monetary Authority finally decided to back off, and the banks applied to the courts for the appointment of Price Waterhouse as receivers and managers.

How all this originally came to pass may be learnt only if Pan-Electric's directors are brought to court, a real possibility given the damage now done. Criminal investigations are under way, although the alleged mastermind, stockbroker Mr Peter Tham, suddenly left the country earlier this year and resigned his directorship of Pan-Electric in June.

While the precise degree of Mr Tan's involvement still remains obscure, it is difficult to see how his business and political affairs can now escape totally unimpared. The affair seems certain to embarrass Malaysia, which has also shut its stock market.

As for the company's future, the banks said in their statement that the appointment of a receiver "will in no way prejudice and is indeed intended to protect the interests of existing shareholders, employees and creditors." The appointment, they said, may even be discharged if Price Waterhouse can report favourably on the company's financial stability.



Empty trading desks on the Singapore Stock Exchange

and sales on a forward basis of up to six months or even a year creates a pyramid of equity which is in effect debt. Some people believe Mr Tan's involvement in Pan-Electric goes back to last year. Either way, his offer of help in a rescue led to talks with a steering committee of the banks which made the original S\$75m loan to Pan-Electric. The committee included Standard Chartered, Citibank and Banque Paribas along with Manufacturers Hanover Trust and representing the small lenders, Kleinwort Benson.

At no point during these talks was it officially confirmed that Pan-Electric had defaulted on a debt repayment. Nor was a "rescue plan" mentioned. This absence of official information proved disastrous, causing the whole stock market to plummet and, incidentally, hurt the much-vaunted public

heavy presence of the Monetary Authority of Singapore, the country's powerful financial regulatory agency. Having initially stood on the sidelines, believing market forces could take their course, the authority was made to realise the potential impact of Pan-Electric's collapse on the stock market and on general confidence, and it duly stepped in.

Despite this, the negotiators' nervousness grew over the true financial state of the group, especially its cash flow position and the exact scale of its forward contracts. The bank creditors also seemed unsure of themselves. Practically all of them are foreign, a revealing sidelight of the affair and a comment on the quality of their lending. They seemed divided, between those with secured loans and those without, and distressed by their failure to get detailed informa-

## Profits down by 11% at Singapore Press Holdings

BY CHRIS SHERWELL IN SINGAPORE

SINGAPORE PRESS Holdings, South-East Asia's largest media conglomerate and one of the island state's biggest industrial combines, has reported an 11 per cent decline in pre-tax profits for the year to August.

The figures reflect the impact of the economic downturn in Singapore and the rest of the region. Although turnover was up from S\$623m (US\$297.7m) to S\$718.5m, pre-tax profits were down from S\$119m to S\$106m. Trading profit was up 13.2 per cent at S\$87.4m.

The group was formed by the 1984 merger of Straits Times Press and Times Publishing, with Singapore News and Publications. Although the merger

took effect at the end of November, 1984, the latest figures have been drawn up as if it had a pro-forma effective date of September 1, 1983.

Over the past year, the group has seen a weakening of advertising revenue and has been forced to raise the cover prices of the Straits Times, Sunday Times, and Business Times. Singapore's three domestic English-language newspapers. Another English language paper in Singapore, The Monitor—a rival to the Straits Times before the merger—closed in July because the principal shareholders were not prepared to inject more capital in the face of mounting losses.

## Keppel and Sembawang shipyards will not merge

BY OUR SINGAPORE CORRESPONDENT

KEPPEL SHIPYARDS and Sembawang Shipyard, the two main government-controlled shipyards in Singapore, have decided against a merger, despite a recommendation to this effect by McKinsey, the US management consultants.

The consultants were commissioned earlier this year to study Singapore's shiprepair industry, which has been suffering from the international trading downturn and the worldwide tanker surplus. The sector had previously been a major spur to growth.

A statement by the two yards said McKinsey had recommended that they "should merge and rationalise their

ship-repair businesses to provide the necessary lead towards a viable regional industry."

But the companies also said McKinsey had told them to negotiate how to minimise and share the costs of a rationalisation. If neither company was convinced a merger was necessary, they should "pursue independent strategies for a couple of years and decide later whether to merge." The companies said they had decided not to merge because potential assets write-downs and the companies' loss of identity would affect minority shareholders. Instead, they would cut costs and reduce capacity wherever possible.

هكذا من الأكل



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November, 1985

## UK COMPANY NEWS

# Polly Peck shocks City as forecast is missed

BY MARY ANN SIEGHART

Polly Peck International, the fruit packaging, electronics and mineral water bottling company, yesterday shocked the City by producing 1984-85 profits which were way below expectations. Two weeks ago, analysts downgraded their forecasts from around £28m to between £18m and £25m for the year to August 31 1985, but the actual pre-tax profit was even lower at £11.1m (£50.1m in 1983-84).

On the downgrading, the shares dropped 52p, or 23 per cent, to 173p, before recovering a little. Yesterday's news caused a further 15p fall to 170p.

Mr Mark Ellis, joint managing director, said yesterday: "The question of brokers' forecasts is one we've been looking at very closely. Clearly we would prefer to be in a position where we come in above any forecast that may be around. We would like lower expectations so that when we deliver, people are a bit happier."

The major problem for profits was the translation effect of currencies. The Turkish lira, which was stable in the first half, depreciated by 44 per cent against sterling in the second. And sterling's relative strength against the dollar led to lower profits in translation from dollar export earnings.

The company also blames the disappointment on £4m of non-recurring start-up costs involved with the new consumer electronics division.

Group turnover rose 50 per cent to £206.5m (£137.2m) and trading profit, at £57.2m, was 25 per cent ahead (£33.7m).

Interest charges were £5.5m compared with £1.7m, leaving fully-diluted earnings per share only inched ahead from 48.7p to 49.3p, but the final net dividend is up 50 per cent at 2.75p, making 5.50p for the year (3.75p).

The main contributor to profits

was the agriculture and food division, which made £33m pre-tax on turnover of £143.5m. Margins were slightly down on last year because of the costs of entry into new markets, especially in Continental Europe and the UK.

Profits from textiles fell from £5.06m last year to £3.5m on sales £5.7m up to £33.9m. The mineral water bottling plant is now working at full capacity and contributed £1.5m of profit in 11 months. The electronics division, which makes colour televisions, video cassette recorders and audio equipment, made £1.5m on sales of £28.1m.

The company says that trade in the first few months of the current year is up on the same period of 1984 and the Board "looks forward to a satisfactory year while continuing to consolidate the development of its existing operations within its available resources."

See Lex

## Chrysalis on target with £5.6m

THE Chrysalis Group which came to the market last July via a merger with Management Agency and Music, has returned to the City with a prospectus forecast.

On a pro-forma basis, taking in MAM's results for an 11-month period, the second company turned in pre-tax profits of £5.6m for the year to June 30 1985, against its earlier estimate of £5.5m.

For the 11 months to end-June MAM's profits were £574,802 (£1.53m for year). The figures were hit by disappointing trading results from the Research Recordings and Minors and Crane operations. The hotels and amusement machine activities met their profit targets.

Included in MAM's results were extraordinary debits of £1.68m relating to the Gilbert O'Sullivan settlement and closure costs associated with discontinued activities.

The results of the Chrysalis Group comfortably exceeded previous forecasts and more than made up MAM's shortfall.

Almost 96 per cent of the 4.3m shares offered for sale by the Chrysalis Group were left in the hands of the underwriters.

## Monks & Crane joins USM with £10m value

BY LUCY KELLAWAY

Monks & Crane, distributors of industrial consumables, engineers' tools, and safety equipment, is joining the USM with a value of £10.2m.

Alfred E. Sharp is placing 3.5m shares at 77p, representing 28 per cent of the enlarged equity. About 2.6m of the shares are being sold on behalf of the company's shareholders, with the remainder sold by the company to raise £800,000 after expenses.

The company, which was established in 1950, was owned by Thorne-EMI from 1968 to 1983, when it was bought out by 46 members of senior management with the help of Sharn Unquoted Midland Investment Trust.

Following the buyout, the management embarked on a programme of rationalisation, closing branches and reducing staff levels. It has subsequently acquired two related distribution businesses: it bought Hunter Group for £500,000 in 1983, and Richard Lloyd for £740,000 in October this year.

The prospectus divides the trading record into two distinct periods: before and after the buyout. The first period shows the group falling from profits of £280,000 in 1981 to losses of £283,000 in 1982, a year which bore the bulk of the restructuring costs.

Since the buyout, however, profits have risen from £405,000 in 1984 on sales of £17.7m, to £706,000 in the six months to September 1985 on sales of £11.5m. The directors are forecasting profits for the full year of not less than £1.5m.

Based on this forecast, the shares at the placing price are on a price/earnings multiple of 10.6 times. Assuming a dividend of 2.7p, the forecast yield is 5 per cent.

Dealings in the shares begin on December 9.

## Tan Sri Khoo lifts stake in Exco

Tan Sri Khoo Teck Puan, the Malaysian businessman who last month bought a large stake in the Exco International money broking group, has bought a further 500,000 shares taking his holding to 87.5m shares or 24.56 per cent of the equity.

Exco clashed with Tan Sri Khoo last week over his demand for three boardroom seats, including that of deputy chairman and member of the executive committee. Exco's shares, which already include a large bid premium, were unchanged at 217p yesterday.

## Jeremy Stone looks at the planned formation of a £3bn heavyweight Why Imps wants to take the biscuit



Mr Geoffrey Kent, chairman of Imps

## HOW THEY COMPARE

	Imperial	Utd. Biscuits
Turnover	£4.64bn (to 3.10.84)	£1.74bn (to 29.12.84)
Pre-tax profits	£220.4m	£87.3m
Employees	59,000	41,000

## MAJOR INTERESTS

**TOBACCO & CONFECTIONERY:** Players and Embassy cigarettes, Golden Virginia and St Bruno tobacco, Famous Names Liqueurs.

**FOODS:** Ross frozen foods, Youngs seafoods, Golden Wonder crisps, HP and Daddies sauces.

**BREWING:** Courage beers and puba, John Smith's beers, Harp Lager.

**RESTAURANTS HOTELS, SHOPS:** Anchor Hotels, Harvester steak houses, Happy Eater restaurants, Finlays newagents.

**BISCUITS & CONFECTIONERY:** McVities, Ry-King, Crawford's Macarons, Macdonalds, Carr's biscuits, Terry's chocolates.

**SNACK FOODS:** KP snacks and nuts.

**FROZEN FOODS:** McVities.

**RESTAURANTS:** Pizzaland, Wimpy.

**US:** Keebler cookies and crackers, Speciality Brand spices and herbs.



Sir Hector Laing, chairman of United Biscuits

Imperial Group's strategy, stated yesterday for the benefit of doubting shareholders, is to establish "an international branded packaged goods and consumer service company."

As announced last week, Imperial has decided to pursue this objective by merging with United Biscuits, a transaction intended to create a grouping with annual sales of £3bn split between tobacco, brewing and food.

The offer values UB at some £1.3bn and the combined group at more than £3bn.

Viewed in the City as a merger based largely on the defensive needs of the two companies, the deal is presented by the two managements as the result of industrial logic.

United's chairman, Sir Hector Laing, says that in a world where the large food companies are getting larger — backed by the cash resources of very large rich partners like the US tobacco giants, R. J. Reynolds and Philip Morris — it is not good enough to be "a minnow" in order to compete internationally "each company had to get bigger."

For Imperial, the merger with UB would solve a longstanding problem — that of reducing its dependence on the profitable but declining UK tobacco market.

On the pro-forma basis of last year's figures for United and Imperial combined, Imperial would reduce its tobacco profits from 49.5 per cent of the total to exactly one-third.

Food, considered to be a growth area — and safer from attack by the health lobby — would move up from 14 to 41 per cent; the balance is made up of Imperial's brewing and leisure interests, excluding from both figures the impact of Howard Johnson, Imperial's ill-fated US acquisition which was finally disposed of last week.

Underneath this array of complementary objectives, City observers argue that the two companies are looking to their union for rather different things. Imperial has been the perennial favourite for a hostile takeover with the name of Lord Hanson, the most recurrent among rumoured bidders.

Its management has spent the last five years coming to grips with a confused and ill-assorted portfolio of businesses, which it can now claim to have sorted out.

Imperial is a strong generator of cash through the tobacco business, and its pubs are a reservoir of assets which must, if the calculations of Elders IXL, the calculations are near correct, be undervalued.

An all-paper takeover of UB

would make Imperial rather less liable to be taken over, either as a cash generator or as an asset play.

United Biscuits has itself been the subject of some takeover talk, but the motives of its management for going into this deal are primarily aggressive.

branding at the end of the century (a throw-away remark based on that morning's news of project to link Australia and Europe in under an hour via ultra-high speed air transport).

That approach has made UB extremely hungry for cash, as its record of recurrent rights

It seems likely, however, that the UB management is intended before long to take over the key positions in Imperial's densely populated boardroom.

Although Mr Geoffrey Kent, Imperial's chairman, only appears that Sir Hector's role

substantial "golden greeting" to be received by UB directors when they cash in their existing share options, on the way over to take on the problems of managing Imperial.

There is a decided possibility that the transaction may be frustrated by a reference to the Monopolies Commission, presumably based on the large combined share of the snack food market.

It also remains on the cards that one of the many companies to have run its computers over Imperial will, at the last gasp, find it impossible to let the opportunity slip away.

But without either of these hindrances, objections from the institutional shareholders of Imperial are not to be ruled out. Analysts of the two groups were saying yesterday that Imperial shareholders faced earnings dilution of about 15 per cent (looking at pro-forma 1986 earnings).

But to be taken over by an aggressive, cash-hungry smaller company, the mutterings went, usually requires a premium; the deal remains to be approved by the shareholders, many of whom were hoping for more, in cash that they could reinvest.

The betting in the City last night was that this merger might be lucky to go through without opposition.

## Minihouse share dealings start on Amsterdam SE

BY CHARLES BATCHELOR

DEALINGS start today on the Amsterdam Stock Exchange of shares in Minihouse, the Dutch computer systems group which is traded in London on the over-the-counter market managed by Granville, the licensed deposit taker.

This will be the first time that a share has been traded simultaneously on the Granville OTC market, which operates on a matched bargain basis, and an overseas stock exchange.

Granville does not make a liquid market in the company's shares on its OTC, but matches bargains on an individual basis and with the aim of not allowing shareholders hostile to the company management, to acquire stakes.

Mr David Metter of Granville said: "Amsterdam is a more liquid market and will take the lead in setting the Minihouse price initially. Our market effectively ceases to be on a matched bargain basis since we can put a deal through Amsterdam instantaneously."

The listing of Minihouse on the Granville market in December 1983 created a stir in the Netherlands, where the financial community feared the start of a trend for Dutch companies to seek overseas listings.

Granville believes the Minihouse move promoted Dutch institutions to ease their requirements on companies seeking capital and stimulated the growth of the Dutch Parallel Stock Market, roughly equivalent to London's Unlisted Securities Market.

Dealings in Minihouse on the Granville market were suspended at 470p. Minihouse is offering 800,000 shares at a minimum tender price of £1.20 (£4.77p) in Amsterdam. Half of these shares are new with the other half coming from Mr Theo Mulder and Mr Klaas van der Heide, joint executive directors (120,000 shares each) and from Holland Venture, a venture capitalist company (140,000 shares).

Minihouse is forecasting a pre-tax profit of £1.5m (£1.15m) for 1985, against £1m for 1984.

## FKB expands to £0.6m and confident of growth

Profits, before tax, of FKB Group, USM-quoted sales promotion agency, expanded from £391,000 to £603,000 for the six months ended September 30 1985, directors are confident that growth will continue during the second half of the year.

FKB, which came to the market in July with a placing of 1.79m shares at 140p, produced a turnover for the six months of £4.21m (£3.53m). After tax of £253,000 against £173,000, earnings are shown as 3.6p compared with 2.4p previously.

The directors say that the increased profitability in the period was because of the higher percentage of fee income in the turnover mix.

They add that the expenditure on marketing and sales promotion of major companies continues to grow as the competitive marketing and retailing climate in the UK prevails.

Business from major clients continued at similar levels to 1984, but the percentage contribution to group turnover and profit was reduced in line with the forecast that the group was moving towards a greater spread of large accounts, the directors state.

The company is in dispute with a client on one of its current projects. The clients' contribution to that company's profits was about 5 per cent for the period. The directors state that present advice is that if any proceedings are commenced they are unlikely to succeed.

able to the public, employees and existing shareholders.

The issue has been underwritten by J. Henry Schroder Wagg, Kleinwort Benson, County Bank and Morgan Grenfell.

Turnover during the year rose from £2.9m to £5.1m, and operating profits increased from £249,073 to £332,811.

Wistech moves ahead

An increase from £261,000 to £308,266 in pre-tax profits is reported by Wistech, specialist industrial and environmental services, for the year to September 30 1985. The directors say the pre-tax profit achieved for the year shows that the impetus for the company's year of trading has been maintained, and they look forward to continued growth.

Turnover during the year rose from £2.9m to £5.1m, and operating profits increased from £249,073 to £332,811.

The City is expecting the issue to be priced at a discount of about 6 per cent on the existing share price, which closed yesterday at 613p, down 22p.

The issue, which will be the second largest ever sale of shares after British Telecom, will consist of 159m shares, 56m of which will raise more than £300m for the company via a rights issue and the balance will be made up of the Government's remaining 22.7 per cent stake in the group.

The offer contains a novel clause: feature whereby the issue is heavily over-subscribed, a larger portion (up to two-thirds) will be made available to the public, employees and existing shareholders.

The issue has been underwritten by J. Henry Schroder Wagg, Kleinwort Benson, County Bank and Morgan Grenfell.

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148 121 Aas. Brv. Ind. Ord. ... 121ad ... 7.3 8.0 7.4 8.9

151 128 Aas. Brv. Ind. CULS. ... 128 ... 10.0 7.8 ...

77 43 Airpurg Group ... 83 ... 4.4 10.2 10.5 13.7

46 26 Amrtage and Rhodes ... 41 ... 4.3 10.5 5.1 6.1

64 42 Bry Technologies ... 32 ... 3.9 7.4 6.5 7.5

201 140 CCL Ordinary ... 144 ... 12.0 6.2 3.5 2.3

182 103 CCL 11pc Conv. Pl. ... 103 ... 15.7 16.2 ...

130 100 Carborundum Ord. ... 120ad ... 12.0 6.2 5.8 9.3

84 83 Carborundum 7.5pc Pl. ... 84 ... 10.7 11.4 ...

71 46 Celanese Services ... 58 ... 7.0 12.1 6.0 7.8

32 21 Frederick Parker ... 21 ... ... ...

83 23 George Blair ... 72 ... ... 2.9 5.3

30 20 Ind. Precision Castings ... 30ad ... 3.0 6.0 13.2 11.0

218 177 Ias Group ... 180 ... 18.0 9.0 13.5 20.1

124 101 Jackson Group ... 110ad ... 5.6 5.0 ...

285 213 James Burrough Sppl. ... 278ad ... 15.0 5.4 8.8 8.8

95 85 James Burrough Sppl. ... 85 ... 12.0 13.6 ...

95 71 John Howard and Co. ... 78ad ... 5.0 6.0 6.3 9.9

100 50 Linguaphone Ord. ... 100 ... 15.0 16.7 ...

650 300 Minihouse Holding NV ... 670s ... 6.9 ... 24.9 23.7

120 31 Robert Jenkins ... 70 ... ... 3.0 20.0

60 28 Securities "A" ... 70 ... ... 5.0 7.5 3.4 7.9

92 81 Torday and Carlisle ... 67 ... 5.0 7.5 3.4 7.9

444 320 Trevian Holdings ... 330 ... 6.7 1.3 18.8 18.4

40 17 Unilever Holdings ... 40 ... 2.1 5.3 10.9 10.6

122 81 Walter Alexander ... 121 ... 17.4 8.7 5.7 9.8

247 195 W. S. Yates ... 200 ... ... 2.1 8.7 5.7 9.8

s = Suspended.

# PATERSON ZOCHONIS

## 1985 profits highest so far achieved

### Summary of Results

Year ended 31st May

	1985	1984	
Turnover	£276.6m	£262.6m	+5%
Profit before tax	£38.6m	£30.9m	+24%
Earnings per share	38.61p	29.88p	+29%
Total dividend per share	5.90p	5.15p	+15%

**1984-85 Highlights:** The record profit level achieved in 1985 reflects a satisfactory improvement in the performance of most major areas of group operations.

Following the completion of the £100 million capital expenditure programme in 1984, Nigeria's results benefited from the first full year's output of the new detergent plant and increased production from the soap and packaging plants.

Profits from the Cussons group worldwide improved and the U.K. companies increased their share of the soap market. In Australia previous market share gains were maintained despite increased competition. Kenya benefited from the first full year's production of the soap factory acquired in 1984.

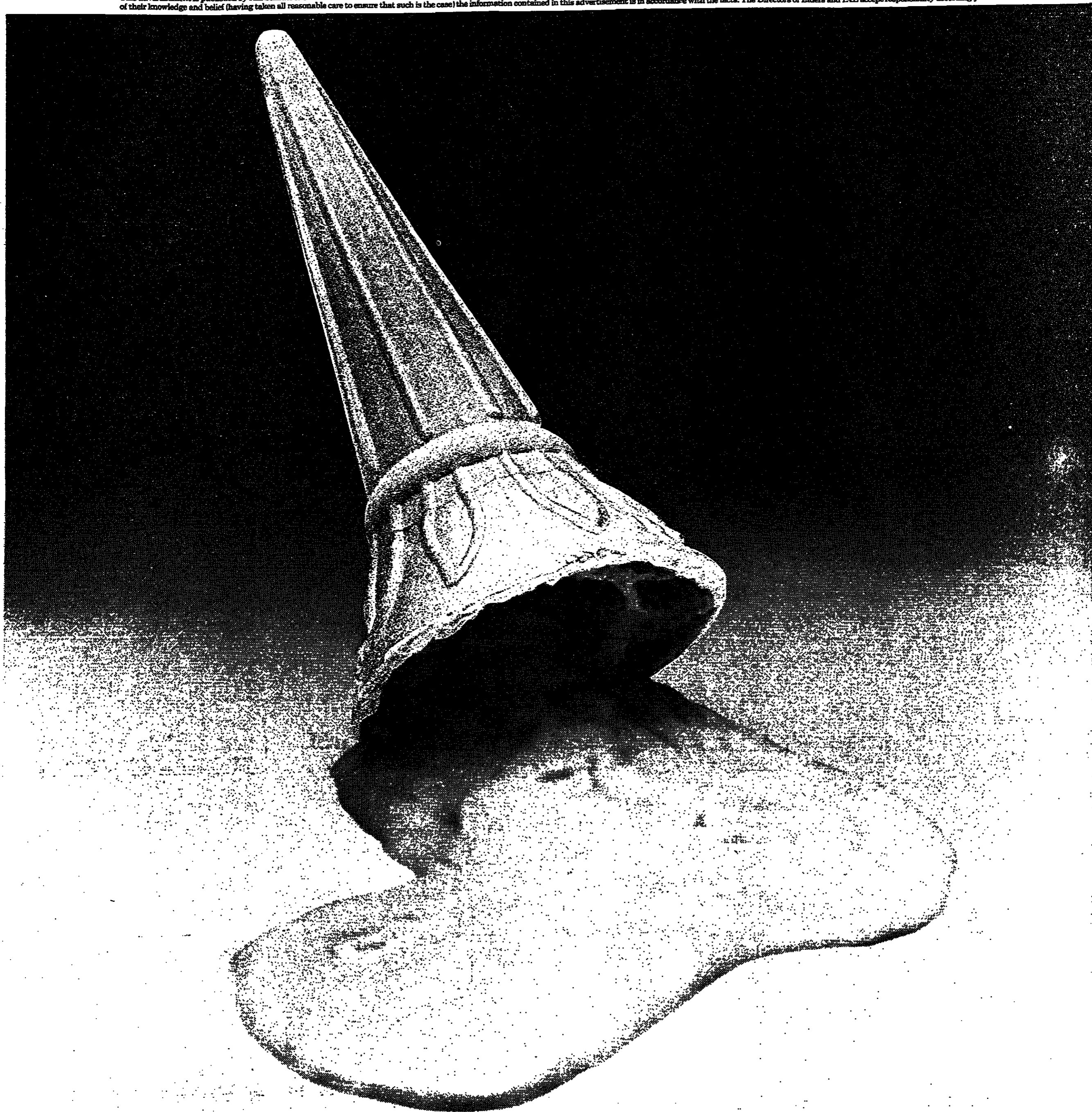
**Current Year:** Most group operations have made a satisfactory start to the year and, subject to unforeseen circumstances, profits of the first half year should be comparable with the same period last year.

PATERSON ZOCHONIS PLC. BRIDGEWATER HOUSE,  
60 WHITWORTH STREET MANCHESTER M1 6LU.

Africa - United Kingdom & Europe - Australia & Far East



This advertisement is published by Hill Samuel & Co. Limited on behalf of Elders IXL Limited ("Elders") and IXL. The Directors of Elders and IXL are the persons responsible for the information contained in this advertisement. To the best of their knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained in this advertisement is in accordance with the facts. The Directors of Elders and IXL accept responsibility accordingly.



## Allied-Lyons' share of the ice cream market in Great Britain seems to be melting away

A recent Allied-Lyons advertisement brags about minor inroads in the US ice cream market. But here in Great Britain the indications are that Lyons Maid's share of the take-home ice cream market melted away by nearly one quarter between 1981 and 1985. Also the indications are that Tetley/Quick Brew tea bags lost over 20% of their market share over the same period and Lyons ground coffee lost a similar proportion between 1982 and 1985. We're

not suggesting these are bad products. We're suggesting that they suffer from being part of the disparate collection that Allied-Lyons calls its Food Division, a division we feel has not provided the marketing support needed to keep up with the competition.

We don't believe that's the fault of individual managers.

We believe it's the fault of an obsolete top management structure.

Hardly what we'd call flavour of the month.

**Elders IXL**

### LOOK AT BOTH SIDES. THEN DECIDE.

Source: British Market Research Bureau Limited: Target Group Index. Brand share estimates are calculated by using data from the survey which combines weight of usage with Most Often usage. This method shows a decline in share for Lyons Maid take-home ice cream of 24% between the two fieldwork periods April 80 - March 81 and April 84 - March 85. The equivalent statistic, between the same two periods, for Tetley/Quick Brew tea bags is a 23% decline. Lyons ground coffee shows a 23% decline in share between the two periods April 81 - March 82 and April 84 - March 85.

## UK COMPANY NEWS

## Elders offer 'frivolous' says Allied

BY MARTIN DICKSON

Allied-Lyons, which is fighting a £1.8bn takeover bid from Elders Ltd, yesterday attacked the Australian group's offer as "frivolous" and said Elders was "not suitable" to be the owner of the food and drinks group.

In its formal defence document, Allied argued that Elders "has given no meaningful assurances to our employees, its management is inadequate, it is too small, it has a disappointing record and it wants to dismember your cohesive powerful group. These demerits limit its offer of cash or loan notes."

Sir Derrick Holden-Brown, Allied's chairman, said the group had an excellent record over the past five years, with pre-tax profits growing from £112.6m to £215m and earnings per share showing a compound annual growth rate of 13 per cent. The group's recently announced interim results had shown accelerating progress with pre-tax profits up 23 per cent to £122.6m.

He argued that Allied was a "top performer" among major British companies and other brewers. It ranked 21st in earnings per share growth over five years of all 90 British companies with a five-year profit record as quoted companies and a market capitalisation in excess of £600m.

He also claimed it had the best five year earnings per share growth record among its 12 major competitors in the brewing and distilling sector.

The document argued that Allied would continue to be a top performer because of strong management, a focus on the inter-connected food, drink and leisure markets, its strength to compete worldwide and an outstanding spread of brands.

It said there was "no intelligent rationale of business logic" for Elders' plan to sell off parts of the group. Allied's three divisions had common requirements, skills and interests.

Elders, the document claimed,

was a "not very successful Australian conglomerate. It is strong on one thing only—grossly extravagant ambition, which, despite its bragging, is not supported by its own resources."

Elders' offer, of 255p a share, was completely unacceptable, when measured against each of the most important investment yardsticks of capital value, earnings and dividends.

Allied's shares closed last night still well above the offer, at 287p, but down 13p on the day.

Elders last night attacked the Allied document for "failing to address a lot of the very hard questions we have raised about their performance."

Elders, meanwhile, yesterday distributed to journalists and selected Members of Parliament a document spelling out reasons why it believed its bid should be referred to the Monopolies Commission.

Elders said it believed that it

would enhance competition in the UK drinks industry through the introduction of new brands, the rationalisation of others and a restructuring of Allied's tied and managed houses. The consumer would benefit from increased choice and improved service.

Defending its plan to sell Allied's food businesses, it said these were not the result of organic growth. They had been "stuck on" to the group in a way which did not generate complementary efficiencies and their removal would not damage the food businesses themselves and the impact on the rest of the group would be "negligible."

"Our overall strategy, our plans for Allied and the effects of the merger in the market place will revitalise both the brewing and wines and spirits divisions. Through improved prospects for competition, employment, innovation and more effective operations, the public interest will benefit."

## Saatchi stake boosts Wire and Plastic price

By Charles Batchelor

THE SHARES of Wire and Plastic Products, a small Kent manufacturing company, leaped 70p to 290p yesterday following an announcement that Saatchi and Saatchi, the fast-growing advertising agency had taken a 10 per cent stake in its equity.

Wire and Plastic, which is changing its name to WPP Group, also announced its first move out of its traditional activities with the purchase of VAP Group, a graphics company which makes material for consumer user guides, for up to £2m in shares.

Mr Martin Sorrell, finance director of Saatchi, and Mr Preston Rabi, a partner in stockbroker Henderson Crosthwaite, took a stake in Wire and Plastic in May with the aim of extending its activities.

They bought 1.36m new shares for £15,000 in a move which gave them 27 per cent of the enlarged equity and Mr Rabi joined the board. Wire and Plastic makes industrial wire and sheet metal products and aluminium kitchenware and tableware.

It has formed a subsidiary, Razor, to spearhead its move into the services area. VAP, which is based near Oxford, had sales of £3m in the 18 months ended January 1985 and net tangible assets of £275,000 at that date. It produces user guides for Austin Rover, Black and Decker, Oxford University Press and Rank Xerox.

The purchase price will be based on seven times the average adjusted profit of VAP for the three years ending January 1990, with a maximum of £2m.

Wire and Plastic will issue 550,000 new shares at 265p each to Saatchi—10 per cent of the enlarged equity—to be held as a long-term investment. Mr Sorrell will join the WPP board.

## St. Ives dividend

Banker N. M. Rothschild, acting as agent for St. Ives Group, yesterday sent out the formal offer document for Richard Clay. Under the terms of the agreed offer of 44 new shares in St. Ives for every 100 shares in Clay or a cash alternative of 190p a share, acceptances should be received by December 23.

## BOARD MEETINGS

The following companies have notified dates of board meetings in the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interim or final and the sub-divisions shown below are based mainly on last year's timetable.

**TODAY**

Interim—Atkins Brothers (Hosiery), Birmingham Mkt. Brooming, CH Industries, Conroy and New Town Properties, GEC, Matthew Hall, Jack L. Israel, Jermyn Investments, Pison International, R. W. Toothill, Finlays—Leeds, Ranks, McDougall.

**FUTURE DATES**

Interim—British Steam Specialties ..... Dec 17  
Cafrys ..... Dec 9  
F and C Alliance Investment ..... Dec 9  
Fine Art Developments ..... Dec 9  
Hawthorn Foods ..... Dec 8  
Investment Co ..... Dec 8  
NESCO Investments ..... Dec 18  
North America Invest. ..... Dec 4  
West's Group International ..... Dec 11

Autostated Paper Industries ..... Dec 11  
Carr's Milling Industries ..... Dec 12  
HES Investments ..... Dec 11  
Plaxtons (GB) ..... Dec 10  
Saatchi and Saatchi ..... Dec 5  
Tate and Lyle ..... Dec 11

## EVANS OF LEEDS PLC

## Property Investment Group

## UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30th SEPTEMBER 1985

	6 months to 30/9/85	6 months to 30/9/84
Total revenue	3,562,963	3,269,428
Net revenue after interest and other charges	2,264,441	2,010,404
Taxation at 40% (1984-85%)	995,776	804,582
Profit attributable to shareholders	1,358,665	1,105,722
Earnings per share	4.14p	3.37p
Interim dividend	1.5p	1.375p

The dividend will be paid on 10 January 1986

## STANDARD BANK IMPORT AND EXPORT FINANCE COMPANY LIMITED

For the six months, November 25, 1985 to May 26, 1986, the rate of interest has been fixed at 8 3/8 % P.A.

The interest due on May 27, 1986 against coupon nr 3 will be \$US 425.73 and has been computed on the actual number of days elapsed (183) divided by 360.

THE PRINCIPAL PAYING AGENT  
SOCIETE GENERALE  
ALSACIENNE  
DE BANQUE  
15, Avenue Emile Reuter  
LUXEMBOURG

## Weir Group launches an £18m bid for Yarrow

BY MARTIN DICKSON

Weir Group, the Scottish engineering company, yesterday launched a takeover bid for its Glasgow neighbour Yarrow. Its uniquely-structured offer puts a basic value of £17.5m on the marine engineering group but shareholders would also receive 70 per cent of any compensation won by Yarrow over the nationalisation of its ship-building interests.

The Yarrow board will meet later this week to consider its response. But Mr J. E. Boyd, the chairman, said yesterday: "I believe that we will vigorously resist this attempt to seize control. Loss of independence would be detrimental to our principal business of maritime consultancy and research."

Weir already holds a 28.3 per cent stake in Yarrow. It acquired 28.3 per cent in August last year from Vosper, the ship-building company which, together with Yarrow, saw its naval shipbuilding and repairs activities nationalised in 1977.

Yarrow is seeking additional compensation for the nationalisation at the European Court of Human Rights. The Weir bid has been structured to accommodate the outcome of Yarrow shares. Weir is offering seven of its

own shares plus 320p in cash or an equivalent nominal amount of "A" floating rate notes 1989-1992.

In addition, it is offering shareholders "B" floating rate notes 1989-1993 with a nominal value of 20p. If Yarrow receives further compensation before July 31, 1992, 70 per cent of the value of the award would be added to the "B" notes, after deducting any taxes and expenses payable by Yarrow.

If no compensation is received, the offer is worth about 445p for each Yarrow share, based on Weir's closing share price last night of 81p, down 21p.

However, that is well below the Yarrow share price, which closed last night at 500p, up 15p on the day.

Weir, which employs more than 4,000 people, makes pumps, steel castings and process plant and has a growing engineering services business. After plunging into loss in 1980, it has recovered to record pre-tax profits of £8.85m last year.

It coupled yesterday's bid with a forecast of a 2.125p final dividend for the year, making a total of 2.875p, an increase of 15 per cent on last year's 2.5p. Yarrow, for many years

primarily a ship-builder, saw these assets nationalised in 1977. It has two main operations, YARD, a specialist engineering company engaged in naval architecture and marine engineering, and Control Systems, which makes ticket systems for buses, railways and other clients. It had pre-tax profits of £1.53m in the year to June on turnover of £25.5m.

Lord Weir, chairman of the Weir Group, said the offer was a full one, since the present price of Yarrow shares reflected to a substantial degree hopes of compensation and the possibility of a higher bid.

However, Mr Boyd said the bid failed to recognise the full long-term potential of the group. YARD in particular, "their proposal to withhold from shareholders 30 per cent of any additional compensation must be unacceptable."

Weir said it believed YARD was a first-class company but it could provide many additional opportunities for accelerated growth.

A combination of the two companies could provide "a stronger and better balanced Scottish group than either of the two could independently provide."

Weir is advised by Morgan Grenfell, Yarrow by Barings.

## COMPANY NEWS IN BRIEF

## RESULTS

TR NATURAL Resources Investment Trust increased total revenue by nearly 21 per cent in the six months to September 30 1985 from £2.7m to £2.74m. Earnings per share rose 16.8 per cent from 4.06p to 4.73p and the dividend is unchanged at 3.4p net. However, net asset value per share fell to 278.4p (317.1p). US dollar loans and other interest accounted for £288,000 (nil).

COLE GROUP, the plastic and electronics company facing a £7.5m takeover bid from Low and Bonar, is revising upwards its estimate of 1985-86 pre-tax revenue by nearly 21 per cent in excess of £1m.

The company's official rejection document of the Low and Bonar bid also stressed that it is on the verge of selling its Cole Plastics subsidiary for a sum in the region of £5m—to a European company.

RODIME, Scottish-based maker of Winchester disk drives, returned fourth quarter pre-tax profits of £2.64m (£2.58m) which left the total for the year to September 30 1985 at £14.85m, against £11.8m. Net sales for the final quarter totalled £20.02m (£18.53m) lifting the year's total to £75.91m (£69.35m). Earnings per share for the 12 months amounted to 115p (92.2p).

DUNDEE and London Investment Trust raised pre-tax revenue in the year to October 31 1985 from £1.2m to £1.42m. Net asset value per share rose from 200p to 225p. Earnings per share were 5.62p (4.79p). Interest on short-term deposits rose to £259,306 (£103,661) and underwriting commission was £15,742 (£5,593). A final dividend of 3.4p is being recommended, making 5.4p (4.7p) for the year.

SHEFFIELD BRICK showed losses of £12,000, against a £1,000 profit for the first six months of 1985. Turnover was down from £1.45m to £1.23m and the loss was struck after interest charges lower at £29,000 compared with £44,000. There was again no tax. There were extraordinary credits

last time of £36,000. Attributable loss was £12,000 (profit £37,000) and loss per share was 0.25p (earnings 0.2p).

The company, which is a builders' merchant and ironmonger, last paid a dividend in 1981.

SIMS CATERING BUYERS, one of this year's USM recruits, reports sharply higher taxable profits of £350,000, against £198,000 for the six months to end-September 1985. Turnover rose from £1.67m to £4.18m, and earnings per share were 4.06p (4.1p). An interim dividend of 1.2p (nil) is being paid.

SCOTTISH and Mercantile Investment Trust's net asset value per share rose to 448.5p for six months ended September 30 1985, against 414.8p a year earlier. As at March 31 last the figure was 447.3p. Revenue was £555,210 (£211,131) after tax of £304,115 (£104,594). The interim dividend is 7p (3.5p). Earnings per share are given as 10.31p (3.65p).

KLEEN-EZE HOLDINGS, energy saving devices, brushes and cleaning products maker, has improved interim profits from £104,000 to £166,000 before tax.

Turnover for the six months to October 2 1985, was higher at £5m, against £7.10m, the main trading activities continue at a satisfactory level and progress should be maintained during the second half, the directors state.

An unchanged interim dividend of 1p is being paid. Earnings were 2.91p (2.64p) per share.

GERMAN SMALLER Companies Investment Trust achieved net revenue of £180,369 for the period from February 12 1985, to September 30. There are no comparable figures.

DANIEL THWAITES' pre-tax profits in the half-year to September 30 1985 were reduced from £2.4m to £1.72m as a result of higher interest due to acquisition, modernisation of its Blackburn brewery and expenditure on its hotels. Earnings per share fell from 31.8p to 20.5p. The interim dividend is being held at 1.1p.

SCOTTISH & MERCANTILE Investment reports sharply

higher net revenue of £555,000 against £211,000, for the six months to end-September. Earnings per share rose from 3.65p to 10.31p and the interim dividend is doubled at 7p. Net asset value per share at 448.5p (414.8p). Net revenue increase reflected a rise in net liquid funds with a higher yield, and exceptional non-recurring fees last time of £251,264.

## BIDS AND DEALS

I. YOUNG HOLDINGS, the distribution and financial services group, has conditionally agreed to purchase Saxon, which operates a horticultural machinery business. Initial consideration is £750,000 to be met by the issue of 622,139 ordinary shares; conditional arrangements are being made to place 349,583 shares at 120p each.

Additional consideration will be paid depending on future profits achieved by Saxon, and this will also be satisfied by shares. For the six months ended September 30 1985, Saxon's sales were £1.3m and its pre-tax profit £190,000.

PILKINGTON ACI, Australian subsidiary of Pilkington Brothers, has acquired Oliver Davey Glass Company from Email, another Australian company. Consideration was paid in cash from Pilkington's Australian resources and represented less than 5 per cent of the parent group's assets.

WHITBREAD Investment Company has purchased 8.97 per cent of Davenport Brewery, bringing its interest to 14.5m ordinary shares (17.56 per cent). The shares were purchased from the Baron Davenport's Charity Trust. BR STEAM Specialities is in "its with an unnamed party which may lead to the sale of its steel stockholding business. A. H. Allen. The prospective buyer is said to be a substantial group with significant interests in steel stockholdings.

DOMINO PRINTING has purchased the business and certain assets of Chemelectron for £86,000 cash.

## Standard Life sales up 66%

BUOYANT new life and pension sales in the 12 months to November 15, 1985 is reported by Standard Life Assurance Company, Scotland's largest life company, with total new money received during the period up by more than two-thirds to £321.9m.

In the UK, new annual premium on ordinary life and individual pension business rose 16 per cent to £27m, while single premium business more than doubled to £224.9m.

Strong growth in pension business in the UK more than offset a dull period for life sales. New annual premiums on individual pensions almost doubled to £48.6m, while single premiums were up by more than 80 per cent to £37.4m.

Most of the growth came in

the period ahead of the Budget on fears, subsequently ungrounded, of tax charges on pensions. The company's new style Castle pension series made an important contribution to the growth.

In contrast new annual premiums on mortgage endowment business dropped by a fifth to £39.2m, reflecting high interest rates and a quiet house purchase market in the first half of the year. Sales rose sharply in the second half, and at the year-end business was running in line with 1984 results.

Sales of linked contracts continued strong, with new annual premiums up by a half to £15.1m and single premiums almost doubling to £97.7m, in a year of growing competition from

more companies entering the market.

Annual sales rose two and a half times to £69.8m, but there was a drop of a fifth to £6.1m on annual premiums for other life business.

The company put on 435 new group life and pension schemes during the year with annual premiums of £4.1m. Some 75 new managed funds were set up.

In the Republic of Ireland new annual premiums rose by half to £2.4m and single premiums by 60 per cent to £187.4m.

The company's business in Canada showed a mixed pattern, with new annual premiums down 16 per cent to £56.9m, while single premiums were up by three-quarters to £314.4m.

## Circaprint dividend lifted 50%

Although 1984-85 pre-tax profits showed a reduction from £660,000 to £600,000, the directors of USM quoted Circaprint Holdings, maker of plated through hole circuit boards, are raising the net dividend from 0.7p to 1.05p per share.

They say the 50 per cent dividend increase is in view of their confidence in the group's future. Circaprint has seen an encouraging start to the current year, with both order intake and sales running at a higher level than last year.

Turnover for the year to August 31 1985 increased from £8.59m to £7.35m. An increase in market share was due to new business gained resulting in a broader range of customers.

Operating costs advanced to £588,000 (£795,000) but interest charges were higher at £235,000 (£159,000) and related to the acquisition of the Exmouth factory and plant. There was a tax charge this time of £148,000 (nil) and stated earnings per 10p share were down from 12.5p to 8.5p.

An extraordinary credit of £13,000 (£433,000) represented a gain on the sale of the Gillingham warehouse.

GRANPIAN HOLDINGS has acquired Penfold Gold, a gold bull maker, for £555,000. Some £600,000 of this is through the allotment to the main sellers of £287,145 ordinary shares in Granpian, and the rest is in cash. The acquisition will complement Granpian's Ben Sayers golf club manufacturer.

This announcement appears as a matter of record only.

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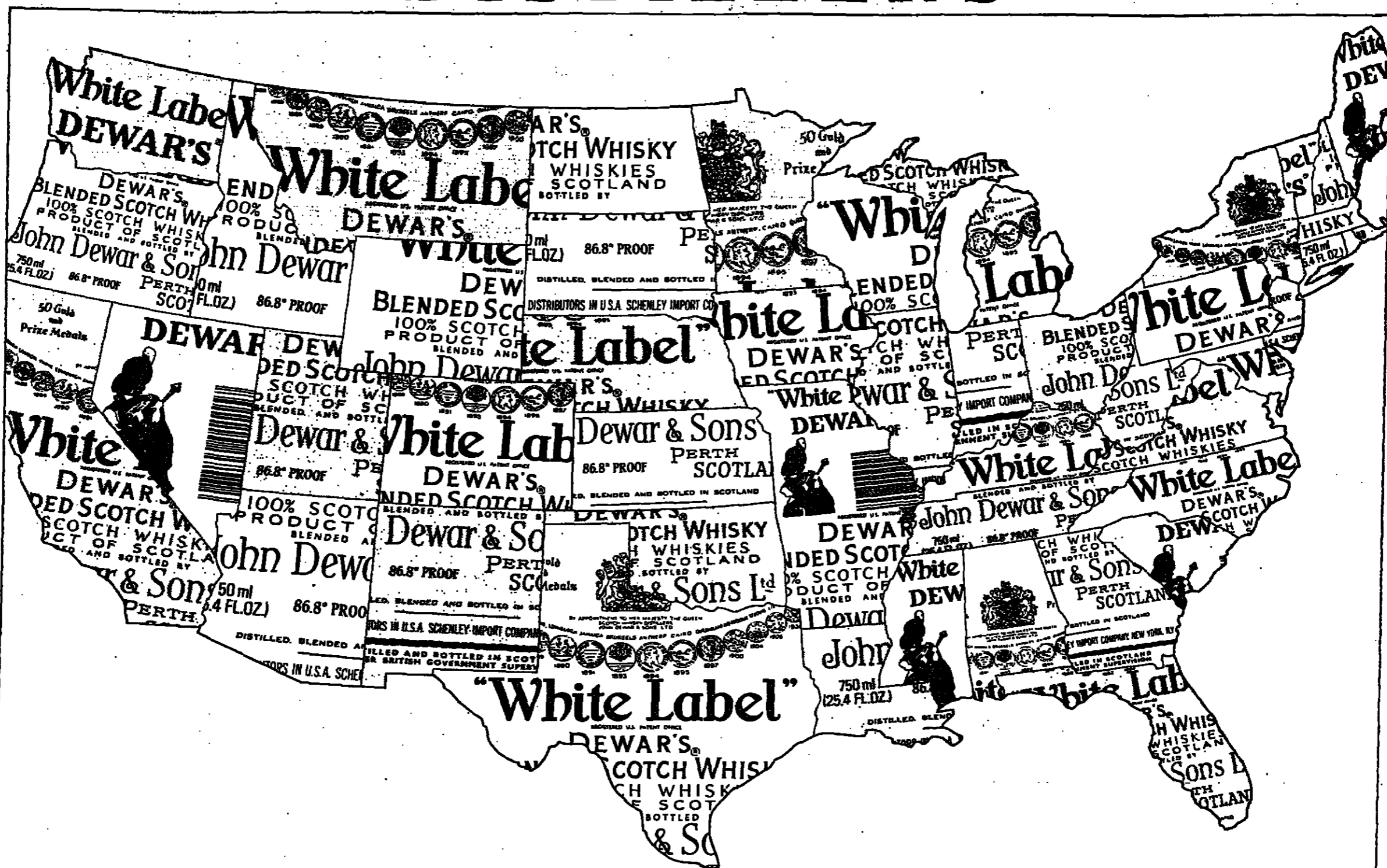
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New Issue: October 29, 1985

## DISTILLERS



# WHEN IT COMES TO UNITING THE STATES, OUR NAME CROSSES ALL DIVIDES.

Spread across the continent-wide open spaces of America are many different people, many different tastes.

But when it comes to Scotch whisky, one taste is a clear favourite. In hotels and bars, at home or on the town, Dewar's White Label is the States' most sought after Scotch whisky.

It is, in fact, the largest selling brand of Scotch whisky in the land, a fact which gives us as much satisfaction as it gives our customers pleasure.

Yet Dewar's is only one of our unique major brands.

Others include Johnnie Walker Red Label, the best selling Scotch whisky in the world, Haig, White Horse, Black & White, Johnnie Walker Black Label and many more blended whiskies. Cardhu, Glen Elgin, Glenleven and a wide range of malts. Gordon's, Tanqueray and Booth's gin. Cossack vodka and Pimm's. And Hine cognac.

These impressive international brands add up to a business which, in 1984/5 alone, netted us £473 million in export earnings, benefiting Scotland in the process.

Successful brands don't develop by accident. The world market is a tough place where flair, innovation and tenacity are prime requirements.

Thanks to the quality of our people, we have become marketeers of the widest range of internationally acknowledged spirit brands in the world. And that is a position we intend to maintain, and improve on all the time.

## DISTILLERS

THE NAME BEHIND THE WORLD'S LEADING BRANDS

The Distillers Company plc, Edinburgh

The Antiquary • John Begg • Black & White • Buchanan's • Cardhu Highland Malt • Claymore • Crawford's Special Reserve • Dewar's White Label • Dimple • Haig  
Johnnie Walker Red Label • Johnnie Walker Black Label • Lagavulin • Old Parr • Talisker • Usher's Green Stripe • Vat 69 • White Horse • Ye Monks  
Booth's • Gordon's • High & Dry • Tanqueray  
Cossack Vodka • Hine Cognac • Pimm's • Crabbie's Green Ginger Wine

(these are just some of our leading international brands)

This announcement appears as a matter of record only.

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Company, Limited

The Toyo Trust and Banking  
Company, Limited

Agent Bank  
Kleinwort, Benson Limited

November 1985

## UK COMPANY NEWS

### All-round progress lifts Dominion profits to £5m

INCREASE in all three sectors of Dominion International Group have pushed taxable profits from £3.6m to £5.0m for the six months ended September 30 1985, and directors are confident of achieving record results for the full year.

Basic earnings per 20p share are given as 7.5p (5.33p), and diluted 7.03p (4.94p), while the interim dividend is lifted from 2.2p to 2.5p—last year's final payment was 2.8p paid from profits of £9.26m.

Turnover jumped from £17.48m to £27.36m for the half year and with pre-tax profits were split as to: property development £12.1m (£8.6m) and £1.37m (£1.28m); natural resources £4.27m (£3.66m) and £1.85m (£1.2m); financial services £3.1m (£2.2m) and £2.36m (£1.47m).

Mr Max Lewinson, chairman, says the commercial property emphasis continues to be on the "steady upgrading of the investment portfolio," and although the contribution from housing was disappointing, more positive trend is emerging in the second half of the year.

A 35 per cent surge in profits to £1.8m at Southwest Resources reflecting a "substantial increase

in the volume of oil produced by its US subsidiary," Mr Lewinson states. Average net monthly production of oil rose from 7,335 barrels to 12,775 barrels, although gas production was fractionally lower.

Mr Lewinson says that the lease purchase and consumer finance businesses are growing strongly while, the Hong Kong financial and management subsidiaries made their first full contribution.

And so did the Bermudan subsidiary which is developing a specialist financial futures business, "and this accounted for much of the increase in turnover," the chairman explains. After tax of £710,000 (£688,000) and minority interest, £283,000 (£246,000) the attributable balance came through £1m higher at £3.45m.

#### comment

It is a little irritating to find these otherwise good figures marred by the inclusion of a spurious £20m of turnover from in-house financial futures dealing on which the turn, a modest £200,000 or so, made not much difference to the interim out-come. It is tempting to suggest

that Dominion really has a turnover of £27m on which it made £4.5m before financial items. When (and if) Dominion begins to handle other people's money on these markets then the fee income from so doing will rightfully be revenue from a service. The oil side is now concentrated in the US following the sale by Southwest Resources (99 per cent owned) of its stake in North Sea block 44/23 for a gain of some £5m. This will be taken next year so as to smooth out the profit's curve. With oil prices firming of late in the US, Dominion can expect the second half to show good gains thanks to the 75 per cent increase in production. Only the property side remains a little flat with income from the commercial portfolio outdoing that on the housing front (where there were 135 completions in the half). The £25 could see this division begin to grow more strongly, as will the move up market in price terms. For the year expectations are for £11.5m, which the share's surely undervalued at 109p, up 7p, on a Bermuda-aided tax charge of 15 per cent, on a prospective multiple of 5 (before conversion).

### FKI advances 70% to £2.6m

FKI Electricals is looking for another strong result for the full year after a half-year which has seen pre-tax profits rise by 70 per cent from £1.51m to £2.58m.

Turnover for this electrical and electronic engineer, in the six months to October 5 1985 rose 44 per cent from £3.32m to £12.05m. The directors say all divisions have performed well, but sales of the electro-mechanical division have been very buoyant, particularly the Zodian photo electric controls for street lighting, which are up

FKI-Metamec, the watchmaker acquired last year from the receiver, has been rebuilt, directors say and new supplies of clocks to Marks and Spencer.

In April £7m was raised through a rights issue which was used to finance six acquisitions. The company's new products have been submitted to the Home Office for testing, however bulk orders have been delayed due to the size of the testing. The company is confident that Burndep will achieve its budget for the financial year.

An interim dividend of 0.275p (0.225p) is being paid.

The recent two smaller acquisitions, Burndep and Metamec, have had little impact on profits in the second half, while the four TI companies acquired are expected to contribute next year.

nearly 14 per cent in the period under review from £1.54p (adjusted for the rights issue) to 1.75p. This growth is expected to accelerate in the second half as the £7m held in deposit since April has been reinvested.

Burndep, the company acquired in 1984 which supplies police communications equipment to the Home Office, has had a very successful six months, directors say. A substantial number of new products have been submitted to the Home Office for testing, however bulk orders have been delayed due to the size of the testing. The company is confident that Burndep will achieve its budget for the financial year.

An interim dividend of 0.275p (0.225p) is being paid.

The recent two smaller acquisitions, Burndep and Metamec, have had little impact on profits in the second half, while the four TI companies acquired are expected to contribute next year.

#### comment

FKI Electric is one of those companies that specialise in turning around loss-makers or in extracting the best out of the cast-offs from a major group. To date this strategy has been successful and there is no reason to doubt that the four units bought for £8.2m from TI recently will not soon join the others in the profits stakes once margin growth has been ensured by the trimming of the cost base. The new purchases should also give some useful tax relief for second hand equipment before they start, and this has to be next year rather than this, to contribute the £2m or so to pre-tax profits forecast at the time of the acquisition. On a 25 per cent tax charge for the year and on forecast pre-tax profits of £2m, FY's £4.5m will be less than those of the previous year. Gross rental income for the first six months of the current year pushed ahead from £1.8m to £2.45m—the group's activities are property investment and development from investment properties came through at £1.85m, compared with £1.44m, but profit from property trading fell from £28,000 to £3,000 and interest received from £190,000 to £143,000. Interest charges rose by £93,000 to £270,000 and administration costs by £29,000 to £18,000. Earnings emerged at 4.94p (4.77p) and the interim dividend is being stepped up from 2.42p to 3p net to reduce disparity. The directors anticipate last year's total (6.05p) will at least be maintained.

### Transcontinental net assets rise to 231p

NET ASSET value per share of Transcontinental Services Group, Netherlands-based, investment holding concern, rose to 231p at September 30 1985, compared with 210p a year earlier. The figure at November 18 was 238p. Net revenue was ahead at £2.12m (2.04m), and gave earnings per share of 6.8p, compared with 7.6p.

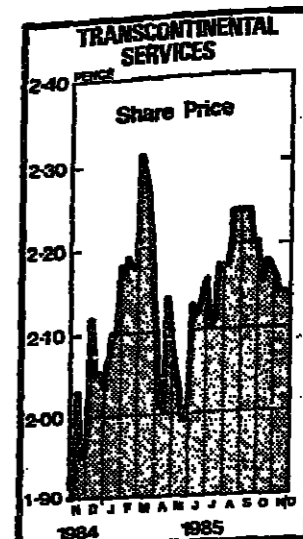
The directors explain that net revenue increased despite the greater part of group income being earned in US dollars in respect of a period, during which the dollar weakened significantly.

In contrast to last year, the directors say, profits were derived mainly from gains realised on the sale of investments by the dealing subsidiary which amounted to £2.96m (£40,000) for the six months out of a gross profit figure of £3.41m (£40,000).

The interim dividend is unchanged at 3.57p gross per share. Much higher interest charges of £1.62m, against £54,000 and administration expenses of £970,000 (£438,000) left the pre-tax figure little changed at £2.18m (£2.12m).

#### comment

With almost all of its funds invested in dollars, Transcontinental has done well to maintain its asset value measured in sterling. Its hedging policy—covering 75 per cent of its dollar assets automatically and taking a short-term currency view on the rest—has been paying off, and by dint of successful short-term deals the company is currently sitting on a cushion of £1.1m currency gains. Meanwhile, both planks of Transcontinental's investment master plan, the short-term dealing operation and the long-term establishment of strategic positions, seem to be going according to schedule. In the first half year \$3m was made on General Foods and on the takeover of American Hospital supply alone, while the leveraged buyout of the beauty salon and jewellery store group Seigman & Letz is about to come to fruition, releasing \$10m and leaving Transcontinental with a 24 per cent stake in the company. Its £2m strategic investment in Target, the UK unit-linked life assurance group, is also looking full of promise, and may reap a large profit when the group is floated next year.



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Interim  
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### Telecomputing rises to £0.8m

PRE-TAX PROFITS at Telecomputing, developer of computer software, almost doubled from £400,000 to £810,000 in the year ended September 30 1985. The USM company intends raising the final dividend from 0.55p to 0.85p net for an increased total of 1.5p compared with 1p. One-for-one scrip is proposed — the new shares will not qualify for the final dividend.

The directors say the year has been good for the company's progress, measured in terms of turnover — up from £2.44m to £2.75m — and at the trading level profits showed an improvement of £298,000 at £888,000.

Tax for the year was higher at £211,000 against £149,500, leaving attributable profits at £500,000 (£272,000), which was before an extraordinary debit of £48,000, the cost of the company's introduction to the USM. Stated earnings per 10p share improved from 10.87p to 21.01p.

### Evans of Leeds up by 13%

Evans of Leeds, property investment and development company, pursued its policy of increasing commercial investment in the six months to September 30 1985 and raised pre-tax profits by 13 per cent from £2.01m to £2.26m on total revenue up from £3.29m to £3.86m.

A £12m debenture issue was made in September to boost its spending power. Since March the company has invested £8.83m, the bulk in commercial properties.

The company is increasing its interim dividend from 1.375p to 1.5p.

#### George Dew

George Dew, the civil engineering group facing a hostile reverse takeover bid from Bremner, the diversifying Glasgow-based department store forecast a 41 per cent drop in pre-tax profits to £2m for the year to last month, not 70 per cent as reported in Saturday's paper.

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Agent Bank

First Interstate Capital Markets Group

This announcement appears as a matter of record only



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November 1985

## UK COMPANY NEWS

Lionel Barber profiles Argyll's chief as the battle for Distillers begins

## Next stage in Gulliver's travels

THERE WAS more than a touch of nervousness about Mr James Gulliver as he unveiled his £1.8bn bid for Distillers, the Scotch whisky combine, at a press conference in Edinburgh yesterday.

The bid is the Britain's biggest takeover with Argyll, Mr Gulliver's supermarkets group, attempting to swallow an international drinks company almost three times its size, measured by market capitalisation.

At 55, Mr Gulliver, the grocer's son from the small distillery town of Campbeltown in Argyllshire, believes he is ready to seize an opportunity to "build Distillers and Argyll into Scotland's greatest company."

In the weeks ahead, Mr Gulliver will need stamina and an ability to persuade the powerful financial institutions that he and his senior managers have a coherent plan to transform DCL into a force in the international drinks industry.

He must prove Mr William Spengler, the new American deputy chairman of DCL, wrong he said yesterday that Mr Gulliver's main expertise lay in canned beans and potatoes.

Argyll's history only goes back seven years, but Mr Gulliver's reputation as a quietly-spoken but highly effective entrepreneur goes back much further.

He studied engineering at Glasgow, management at Harvard and went straight into consultancy, where some of his time was spent on consumer products. His business track record was established some 20 years ago when he joined an offshoot of Gardell Weston's Fine Fare Group and, a year later, became managing director of the supermarket empire at the age of 33.

The turnaround at Fine Fare, where losses of £0.3m in 1965 were transformed to pre-tax profits of £5.4m in 1972, set the Gulliver stamp: an ability to cut overheads, improve margins and install rigorous financial controls.

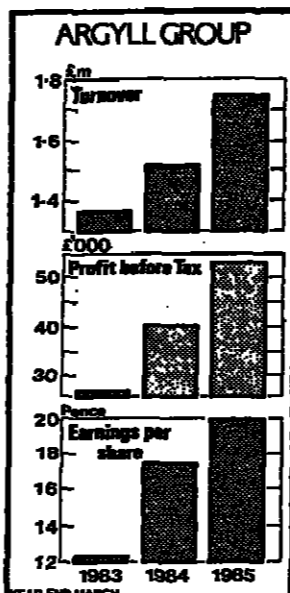
The fair for the big deal came much later. Mr Gulliver, disappointed when plans to float Fine Fare on the stock market were dropped, bought into a company called Oriel Foods. Having borrowed £1m from £1m from William Brandts, the merchant bank he liked Oriel into shape, sold two years later to RSA, and became a millionaire.

Mr Gulliver's travels then took him to a publically-quoted Shrewsbury wholesaler, Morgan Edwards, where he teamed up with Mr Alistair Grant and Mr David Webster to form the leadership which now controls Argyll Group. They bought into the Manchester meat wholesaler, Louis C. Edwards, who had built up both this business and Manchester United football club.

There were those who said Mr Gulliver was moving too fast. He



Mr James Gulliver, chairman of Argyll Group



bought back Oriel Foods from RCA for £19.9m cash in February 1981. In June 1982, in perhaps the most significant deal of all, he purchased Allied Suppliers from Sir James Goldsmith's General Occidental for £104m, thus acquiring Argyll's principal retail division, Presto, and other outlets such as Liptons and Templetons. In November 1983,

he merged Argyll Foods with Amalgamated Distillers Products, where he had assumed management control in 1979 to form the Argyll Group.

But Mr Argyll and his partners have worked assiduously to cultivate a following in the City. Though Mr Gulliver still likes stylish cars, he now drives a Mercedes coupe, he has tried

hard to show that there is substance to his new group.

In the three years since he bought Allied Suppliers, Argyll Foods has increased operating profit from £18.4m to £44m in 1985. Presto Food Markets' profits have increased from £4.5m to £20.2m between 1982 and 1985.

There is no question, therefore, in most City analysts' eyes, that Mr Gulliver has shown he can manage a grocery business, and reduce the resulting gearing.

"You have to remember," said Mr Gerald Horner, a retail analyst at Scrimgeour Vickers, Mr Gulliver's brokers, "that the DCL bid is the fourth time he has taken over a company far bigger than his own."

Mr Horner described Mr Gulliver's main talent as an ability to study a company in detail before he launches a takeover bid. "The Argyll team understands the target as if they have been running the company for the past five years."

DCL will argue in the coming weeks that for all the homework, Mr Gulliver has yet to prove he can manage a premium brand business such as whisky on an international scale. This is Mr Gulliver's problem in a nutshell.

He has to convince his audience in the City and among the shareholders in Scotland, an important constituency in what should be a close contest, that he is ready for what he himself describes as his greatest challenge yet.

See Lex

## All-round growth helps Argyll Group advance 26%

Argyll Group supported its bid for Distillers with interim figures showing taxable earnings ahead by 26 per cent on a 14 per cent improvement in turnover. There were increased profits from all parts of the supermarket group in a period which saw continuing major developments of its operation.

Turnover, excluding VAT in the six months ended September 1985 improved from £769.65m to £876.09m with pre-tax profits of £28.8m, against a comparable £23.65m. From stated earnings per share of 10.4p (9.1p) an increased interim dividend of 2.65p (2.1p) is being paid. Last year a total of 6.25p was paid on pre-tax profits of £53.12m.

Mr James Gulliver, chairman, says the food division showed strong progress with operating profit 24 per cent up on last year to £24.2m (£19.45m) and the programme of converting its stores to Presto and Lo-Cost was proceeding well. In the drink division there was good growth with operating profits of £7.01m, 13 per cent up on the £6.23m of last year.

Total operating profit came out at £31.21m (£25.68m). There was a lower interest charge, largely as a result of releasing cash from underperforming assets in the drinks division, which has produced substantial interest income. Property expenses of £306,000 (£385,000) were also incurred before the pre-tax figure.

With a tax charge of £9.94m (£9.91m), minority interests taking £133,000 (£110,000) and dividends absorbing £5.31m (£4.2m), the retained profit was £15.42m, compared with £13.43m for the same period last year.

Of current trading and prospects Mr Gulliver says that the food division is achieving the objectives which were set for it and the group would be extending the conversions of Liptons into Presto and Lo-Cost at an increasing rate after the pressures of Christmas were over.

"Our new opening programme is providing very satisfactory results and the first of a new generation of Presto Food Markets, incorporating an innovative approach to fresh

food and other departments will open in Farnham, Surrey, in spring 1986," he says.

The company is satisfied with rapid development of the distribution capability which is said to be the cornerstone of plans for a total systems approach to store operations, distribution and merchandising.

Mr Gulliver adds that the drink division continued to produce an excellent return and the group was looking for more products to complement the existing range.

"I expect to be able to report another successful year's trading for Argyll."

In the food division net margins improved from 2.9 per cent to 3.1 per cent with Presto showing an increase from 2.57 per cent to 2.81 per cent and other food activities up from 3.25 per cent to 3.36 per cent. At Presto there was a satisfactory volume growth of 3 per cent but overall growth was held back by its store opening programme which is concentrated in the second half and the net addition last year of only two Presto Food Markets.

Mr Gulliver says that a pleas-

ing performance was shown by the fresh food department, particularly produce and in-store bakery. Wines and spirits showed the benefit of the enhanced range.

During the period the chain's own label development continued with the addition of 230 new products mainly in frozen and chilled foods. Own label now accounts for 27 per cent of Presto packaged grocery sales, compared with 24 per cent at the beginning of the year.

During the six months, three stores were opened and in this half year four stores have opened with a further five planned before Christmas and another eight by the year end to meet the target of 20 new stores this year.

In the other food activities, Lo-Cost, the limited range discount store, maintained growth with a volume gain of more than 8 per cent. Amos Hinton, the north-east grocery chain, was now integrated and contributed strongly to profits.

Turnover in the drink division grew by only 1 per cent mainly because of a change in the UK terms of trade with a number of

major customers now being supplied on an exclusive duty, and a fall in tobacco sale volume by North West Vintners. That resulted in a UK turnover fall of 1 per cent. However, that was offset by an 8 per cent improvement from the US side.

The Scotch whisky market in the UK saw some recovery but it remains highly competitive. Cased exports, however, showed good growth.

George Morton, the UK wholesale operation maintained sales volume of its established OVD dark rum brand and two new agency products were launched: Casino Royale, blackcurrant-based liqueur and Mintu, peppermint schnapps.

Barton Brands, the US offshoot advanced satisfactorily, Mr Gulliver says, increasing operating profit by 12 per cent. The results support the company's strategy in broadening its product base away from its traditional bourbon business into newer growth markets, he adds.

The Californian wine agencies made encouraging progress with imported wines from Europe were affected by the strength of the dollar.

## Brownlee profit slumps to £0.3m midway

AS EXPECTED Brownlee, Glasgow-based timber and builders merchant, had a poor start to the year with taxable earnings down to little more than a sixth of the comparable figure, on turnover down by 3.5 per cent.

For the six months to the end of September 1985 turnover fell to £17.59m, with pre-tax profits of £314,000 against £1.83m. Mr R. B. Jack, chairman, says that in view of the uncertainty for the whole year the interim payment is being reduced to 1p (1.3p). Earnings per share came out at 1.2p (6.3p).

Mr Jack reminds shareholders that following the fall in demand from the building trade and tightening of margins seen in the second half of last year he had warned that the conditions were likely to continue in the first six months of this year. He adds that the poor summer made the situation worse and the strengthening of the pound reduced margins still further.

There are tentative signs of a recovery, Mr Jack says, but they can only be regarded as fragile and a severe winter would be a setback.

During the period the company bought the Paisley-based timber merchant W. Lang (Aberley) for £700,000. The Taylor Clark. The deal was completed at the beginning of August and turnover of £910,000 and profit of £25,000, 25.5 per cent, were included in the figures.

Operating profit came out at £370,000 (£1.82m) with a further £22,000 (£20,000) from an associated company. Interest charges were higher at £78,000 (£17,000). The tax charge was £118,000 against £20,000 last time when there were also extraordinary credits of £90,000.

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## Free State Development and Investment Corporation Limited

("Freddies")  
(Incorporated in the Republic of South Africa)  
Registration No. 05/16931/06

## Company announcement

## Proposals relating to:

- the restructuring of Freddies into two separate listed companies, namely:
  - Freddies, and
  - DAB Investments Limited ("DABI");
- a sub-division of the share capital of Freddies;
- the acquisition by Freddies of:
  - Southern Holdings (Proprietary) Limited ("Southern Holdings"); and
  - certain mineral participation rights from Southern Holdings (Proprietary) Limited ("Southern Holdings") and Southern Holdings Investments (Proprietary) Limited ("SPL"); and
- a rights offer to members of DABI.

## 1. Background to the Proposals

The main business of Freddies has been the management of a portfolio of predominantly mining shares. It also owns a portfolio of mineral rights relating to precious metals, the majority of which are the subject of various prospecting agreements which have been concluded with a number of mining companies. The directors of Freddies consider that its affairs should now be divided into two components comprising, on the one hand, a company (DABI) with a portfolio of mining and other shares, and on the other, a company (Freddies) capable of turning to account its mineral rights. Over the course of the next few years there could be opportunities in the latter area which could require the infusion of significant amounts of risk capital to meet the high costs of evaluating and developing mineral prospects. Under such circumstances, the emphasis of Freddies' operations will shift to a higher risk area than has hitherto been the case. The proposed arrangements recognise this and will, if adopted, enable members to remain exposed to both components of Freddies' operations, as now constituted, if they so choose, or to concentrate their financial resources on that part of Freddies' business that best suits their particular requirements.

## 2. The Proposals

## The proposals are:

- the existing business of Freddies is to be divided between two companies, Freddies which is already listed on the Johannesburg Stock Exchange ("the JSE") and the Stock Exchange, London ("the LSE") and a newly formed company, DABI, which will also be listed both on the JSE and the LSE. Freddies will have as its business mineral exploration, prospecting and the turning to account of mineral rights. DABI will hold a portfolio of mining and other shares (consisting initially of the share portfolio which DABI will purchase for cash from Freddies), deriving income largely by way of dividends;
- to give effect to the above proposal set out in 2.1, Johannesburg Consolidated Investment Company, Limited ("JCI") is to conclude an agreement with DABI whereby JCI will, as a stipulation for the benefit of Freddies shareholders registered as such on the record date, subscribe at par for 3,630,000 new ordinary shares of 1 cent each in DABI which will be allotted and issued directly by DABI to the Freddies shareholders on the basis of 1 DABI share for each Freddies share held at the close of business on the record date for the proposals (which is expected to be towards the end of February, 1986);
- with effect from the next trading date after the record date each ordinary share of 50 cents in Freddies is to be sub-divided into 5 ordinary shares of 10 cents each;
- Freddies will, in terms of agreements which have been concluded

and subsequent to the restructuring referred to in 2.1 above, acquire the entire issued ordinary share capital of Southern Holdings, a company whose principal assets are mineral participation rights and cash, as well as additional mineral participation rights from Southern Holdings and SPL, for the issue of 3,632,063 ordinary shares in Freddies (after the sub-division outlined in 2.3 above); and

## 3. The Effect of the Proposals

The effects of the proposals set out in 2 are that:

- members of Freddies as at the record date for the proposals, which is expected to be towards the end of February, 1986, will be the initial shareholders of DABI, prior to the DABI rights offer;
- Freddies will own its existing mineral and participation rights, the mineral participation rights purchased in terms of 2.4 and cash of approximately R8.1m received from the sale of its share portfolio to DABI. Freddies will continue, therefore, to finance the development of its mineral and participation rights and to exploit future opportunities. Freddies' shares will continue to be listed on the JSE and LSE;
- DABI will, initially, own the share portfolio which it acquires from Freddies and will operate as an investment holding company whose shares will be listed on the JSE and LSE;
- the division of Freddies into two components in terms of 2.1 will have no effect on the net asset value and, prior to the rights offer in DABI, on the earnings attributable to Freddies shareholders; and
- the acquisition of Southern Holdings and the mineral participation rights referred to in 2.4 will have no immediate effect on the earnings and net asset value of Freddies as reconstituted.

## 4. Directors

Messrs. C. I. von Christerson and J. H. C. Wilson, who are currently directors of Southern Holdings, have accepted invitations to join the board of Freddies following the implementation of the proposals.

## 5. General

- The implementation of the proposals is conditional inter alia on:
  - the approval of the proposals by members of Freddies in general meeting;
  - the granting of a listing for the DABI shares on the JSE and LSE; and
  - the granting of a listing on the JSE and LSE of the Freddies shares to be issued as consideration for the acquisitions referred to in 2.4.
- A circular containing details of the proposals referred to in 2 is being prepared and will be posted to shareholders towards the end of January, 1986.



Johannesburg  
2nd December, 1985.

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## GIST-BROCADES N.V.

Notice is hereby given that on 18 November 1985 at the office of the trustee and in presence of an attorney of the debtor, 102 debentures of US \$ 1,000.- have been drawn by lot. Numbers:

1, 13, 123, 137, 144, 164, 168, 479, 785, 888, 1053, 1109, 1522, 1700, 1708, 1725, 1730, 1738, 1957, 2073, 2368, 2549, 2370, 2371, 2646, 2694, 2699, 2991, 3108, 3400, 3636, 3638, 3639, 3865, 3869, 4259, 4261, 4511, 4530, 4593, 4605, 4670, 4671, 4698, 4721, 5123, 5381, 5481, 6532, 6582, 6584, 6737, 6792, 6793, 6866, 6880, 6969, 6971, 7095, 7153, 7296, 7646, 7676, 8072, 8195, 8723, 9127, 9456, 9457, 9524, 10106, 10517, 10622, 10641, 10642, 10697, 11233, 11235, 11251, 11254, 11496, 11977, 12231, 12244, 12440, 12442, 12503, 12588, 12945, 13213, 13215, 13303, 13477, 13478, 13479, 13861, 13870, 13873, 14522, 14666, 14845, 14950.

The debentures specified above are to be redeemed on 1st January 1986 with US \$ 1,000.- each. In New York City at Morgan Guaranty Trust Company of New York, or at the option of the bearer, in Amsterdam: at the offices of Bank Mees & Hope NV, Algemene Bank Nederland N.V., Amsterdam-Rotterdam Bank N.V. and Pierson, Holding & Pierson N.V., in Brussels: at Morgan Guaranty Trust Company of New York, Banque Bruxelles Lambert S.A. and Société Générale de Banque S.A., in London: at N.M. Rothschild & Sons, by transfer to a Dollar account or by Dollar cheque drawn on Morgan Guaranty Trust Company of New York at New York City, in accordance with all laws and regulations applicable in the country of the paying agents concerned.

With reference to article 4 of the trust deed attention is called that until and including 31st December 1985, each drawn debenture of US \$ 1,000.- shall be convertible at the price of Dfls. 78.90 per ordinary share Gist-Brocades N.V. At this moment the principle amount of the debentures outstanding is US \$ 922,000.-. Of the debentures that were called per January 1, 1980 the number 7802, of the debentures that were called per January 1, 1983 the number 6636, of the debentures that were called per January 1, 1984 the numbers 163, 2068, 8770, and 8816, of the debentures that were called per 1 January 1985 the numbers 1273, 2032, 2327, 8791, 12495 and 13939 have not yet been presented for payment.

Rotterdam, November 18, 1985.

B.V. ALGEMEEN ADMINISTRATIE-EN TRUSTKANTOOR.  
Wijnhaven 87-89, 3011 WK ROTTERDAM, The Netherlands.

## TECHNOLOGY

Stephanie Yanchinski on how to turn a glut into export earnings

PARTICLES of fine chalky earth could turn round the fortunes of one of the world's major foods. The adsorbent earth, coated with enzymes and packed into a bed, can now be used in a commercial process to convert palm oil, an oily orange liquid which is a dietary staple throughout the Third World, into valuable food products sold in the West.

This biological process could turn an embarrassing glut of a cheap commodity into a valuable source of export earnings for such countries as Malaysia and Indonesia.

The world's foremost specialists in biological processing with enzymes are tackling the problem of upgrading palm oil in France, Britain, Malaysia, and Singapore. Some of the world's biggest manufacturers of chocolate and food oil, such as the Anglo-Dutch conglomerate Unilever, are involved.

For example, promising work is going on at the National University of Singapore which, in co-operation with a local company, is developing a commercial process for producing liquid food oils suitable for sale in supermarkets in colder climates. The research, supported by the Singaporean Trade and Industry Ministry, is part of the country's intensive efforts to exploit biotechnology, which the Government believes will play a key role in the economy in the next few decades.

Palm oil is big business. Annual world production approaches 10m tonnes, and supplies 14 per cent of the world's needs for vegetable oil, ranking only second to soya.

New plantations of palm oil are springing up throughout south east Asia but particularly in Malaysia, Singapore's trading



## Earthy track to better palm oil

partner and one of the major suppliers of raw palm oil. There production is doubling every year.

At the same time new "cloned" varieties developed through tissue culture by Unilever scientists are gradually replacing the older types.

However, the world is facing a surplus of palm oil, which adds

incentive to the search for ways to upgrade its value. The processes under commercial development, still largely secret, use a bed packed with diatomaceous earth coated with the enzyme lipase over which palm oil dissolved in solvents flows. Lipase is one of a family of enzymes, some found in the human intestine, which break

down food fats. Both the Singaporeans, and Unilever scientists use this method. However, the goals are different. The university's commercial partner, Lam Soon, one of Malaysia's largest food oil and soap manufacturers, intends to develop cooking oils which could stand on supermarket shelves in the cooler European climate without hardening.

Unilever, on the other hand, wishes to find a substitute for the expensive food fat, cocoa butter, widely used in chocolate manufacture. The chemical components of cocoa butter, in particular its fatty acids, give chocolate the characteristic melt-in-the-mouth qualities.

World supply of cocoa butter is insufficient to meet the demands of the chocolate industry. By changing the fatty acid profile of the palm oil, Unilever hopes to find a cheaper replacement, and at the same time a new market for palm oil.

Conventional methods of changing the fatty acid composition of palm oil take several days, and produce many unwanted side products. On the other hand enzymes target their attack, and thus work more efficiently, in a few hours.

In the course of their research Unilever's team scored a unique scientific feat in getting their enzymes to work in a virtually water-free environment.

Meanwhile, the Singaporeans are pressing on with a plan to build a pilot plant for testing their process. Mr Wong Mong Hong, a production manager at Lam Soon, says: "We do not expect a commercial process within five to ten years." However, he eventually sees production plants using the university process stretching throughout the Pacific Basin, even to China.

## Cloning helps produce 'elite' strains

UNILEVER is planning to set up production units for its cloned oil palms throughout the Third World. The food and detergent company is negotiating a joint venture with Indonesia to mass-produce palm oil plants for the country's fast-growing plantations.

This is only part of a massive programme for commercialising this British innovation which involves field trials in countries as far afield as Thailand, Papua New Guinea, Ecuador, Brazil and Zaire.

Throughout the third world farmers harvest the palm oil, which is the basis for a wide range of food oils and detergents. Palm oil is second only to soya in the world supply of vegetable oils.

World production is set to grow, as countries such as Malaysia and Indonesia yearly plant more acreage with palm oil and new uses in pharmaceutical manufacture, are found.

Certain "elite" varieties could yield 30 per cent more oil. Unfortunately, the conventional horticultural methods for cross breeding and thus improving strains, by taking cuttings for example, do not work with oil palms.

Unilever developed a method for growing these elite plants artificially in the laboratory, by "cloning." This involves taking one or two cells of a mature oil palm plant, placing it in a gel impregnated with nutrients, where it grows into a small

plantlet. After toughening outside the plantlets are shipped to where they are needed.

The programme took 10 years and millions of pounds to reach success. Clones are still very much in the testing stage but in Malaysia the programme is well advanced. Results show cloned plants outperforming conventional varieties by 25 per cent.

Production in Unilever's facilities in Britain has grown so that the laboratories will produce around 300,000 plants this year. However, Dr R. H. V. Corley, head of Unilever, the Unilever subsidiary which markets the cloned material, says: "Total production of clonal plants, by ourselves and all our competi-

tors, is unlikely to exceed 500,000 in 1985, whereas the demand for plants for commercial replanting and expansion is somewhere between 60m and 80m. So the impact of clonal oil palms is small as yet."

Dr Corley says that while it is relatively easy to ship small numbers of plants from Britain to tropical countries, the logistics of trying to transport sufficient numbers for large-scale commercial planting are quite complex.

"There are obvious advantages to doing the tissue culture work in the country where the plants are required. Unilever's long term strategy will be to set up production units in each of the major markets."

## Questions of survival supplant optimism

Professional Personal Computing

By LOUISE KEYHOE

SALES have not lived up to the overblown expectations of many industry participants and the future looks uncertain. Personal computer sales are still growing in the US, but much, much more slowly than expected.

Mr John Young, president of Hewlett-Packard, opening this year's Comdex computer dealer trade show in Las Vegas last week, said: "The past year has been difficult and disappointing for everyone. All the easy sales have been made and the overabundant optimism has turned to questions of survival."

The boom times of 1983 and 1984 fooled the personal computer industry into thinking it was on the fast track to heaven. Today, a much more realistic outlook is required.

He said: "This reality requires a self discipline that the PC industry hasn't needed before. We have to pay attention to business fundamentals that are less glamorous."

"The industry will survive and thrive if we acquire the self discipline and business fundamentals needed to succeed over the long term, and if we build business relationships based on mutual benefits, trust and integrity, if we remember that the PC is only a means to an end and that that end is to help people work more effectively, and if we accept the challenge of taming the computer and making its magic useful to millions of people who need it."

Clearly the personal computer market is becoming mature and sophisticated. Many participants do not have what it takes to survive in such an environment. Topping the list are hundreds of "quick buck" computer store operators, many of whom have already fallen by the wayside.

Next come the first generation of "clone" makers. A consolidation is also well under way among makers of network equipment, disk drives and multi-user systems.

For the consumer, however, this industry shakeout may not be bad news. Increased competition among manufacturers and retailers is driving down prices.

In a buyers' market, it is not surprising that prices are coming down, but the rate of fall is shocking. The IBM compatible personal computer has become a commodity product. It has also, despite IBM, become

a consumer product. The IBM standard — an 8088/8086-based machine with an MSDOS operating system — is carved in stone. Nothing else sells to business or in future, to anyone who wants to use a PC for any work-related activity.

Tandy's introduction of an IBM PCAT compatible machine that will sell for 40 per cent less than the original is the latest example of the dramatic price trend. The Tandy model 3000 will retail in the US for \$2,599 with two floppy disk drives and for \$3,599 with a 20 megabyte hard disk.

Mr John Roach, Tandy chairman, said at the 3000 launch: "We are dedicated to the best price/performance in the market. We hope that big business can't afford to ignore us."

Tandy's primary target will however be small businesses and the "work at home" market.

Already Tandy's model 1000, an IBM PC compatible, has taken the US market by storm, according to Future Computing, a Texas market research firm. The computer, introduced a little more than a year ago, has surpassed all other Tandy computer products in numbers sold. Currently, the model 1000 is being offered in the US for \$899, including a colour monitor.

Now the 1000 is in for some new competition, computer dealers say. A new wave of IBM PC clones — most of them from Japan and Korea — is sweeping into the market at prices as much as half IBM's prices. Mr Jon Levus of the Palo Alto Research Group, an industry consultancy, said: "Japan Inc is finally entering the US personal computer market in force." Epson, for example, is offering a PC at equivalent with hard disk for \$4,495.

The emergence of "generic" or unbranded PC clones will allow computer dealers and others with a modicum of technical know-how to put together their own machines. Mr Lewis said: "A lot of dealers are interested in the opportunities this opens to them." A set of

PC parts can now be had for about \$500, including the disk drive.

Osborne computer, now out of bankruptcy and clawing its way back into the business, has brought the PC kit idea to the retail market, offering a build-it-yourself PC for \$699.

How the surge of PC clones will hit IBM's sales remains to be seen. But Big Blue is certainly not taking the onslaught sitting down.

IBM put a cloud over Comdex by announcing on the eve of the event that it planned to limit its retail outlets in the US to those already authorised. This was widely interpreted as a move designed to limit price cutting. Ironically, IBM's action is expected to drive some dealers into the clone market.

Lower prices are expected to boost US PC sales over the next few months, but some significant technology advances also make the longer term outlook encouraging.

The arrival of low-cost laser printers opens up applications for personal computers, suggests Ms Lewis. The so-called desk-top publishing business will boom over the next two years, she predicts. At Comdex several manufacturers were showing laser printers priced under \$2,000, almost half the price of existing models.

Another growing market segment is the use of personal computers in computer aided design. "Autocad" a CAD program for IBM-type personal computers created considerable interest among Comdex attendees. Published by Autodesk of Sausalito, California, the program can be customised to suit any drawing application from landscape design to chemical engineering.

A promising development for every personal computer user is the continuing trend towards higher capacity data storage systems and ever lower prices.

Among the new memory products at Comdex were several add-on boards for personal computers that incorporate hard disks.

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## On-board voice unit

A BOARD-MOUNTED electronic unit from Nippon Electric Corporation, able to recognise isolated spoken words, is available in the UK from Dialogic Distribution of Camberley, Surrey.

The board, designated EP-1005, has a learning and training mode in order to match it to a particular user and vocabulary. Extracted features of speech are stored digitally in a memory and decisions made about the word spoken after sufficient similarity is determined between the input and reference patterns.

The unit can deal with either 128 or 512 words and maximum voice length is two seconds. The response time is half a second. It is claimed that 98 per cent of words are recognised correctly.

More on 0276 682001.

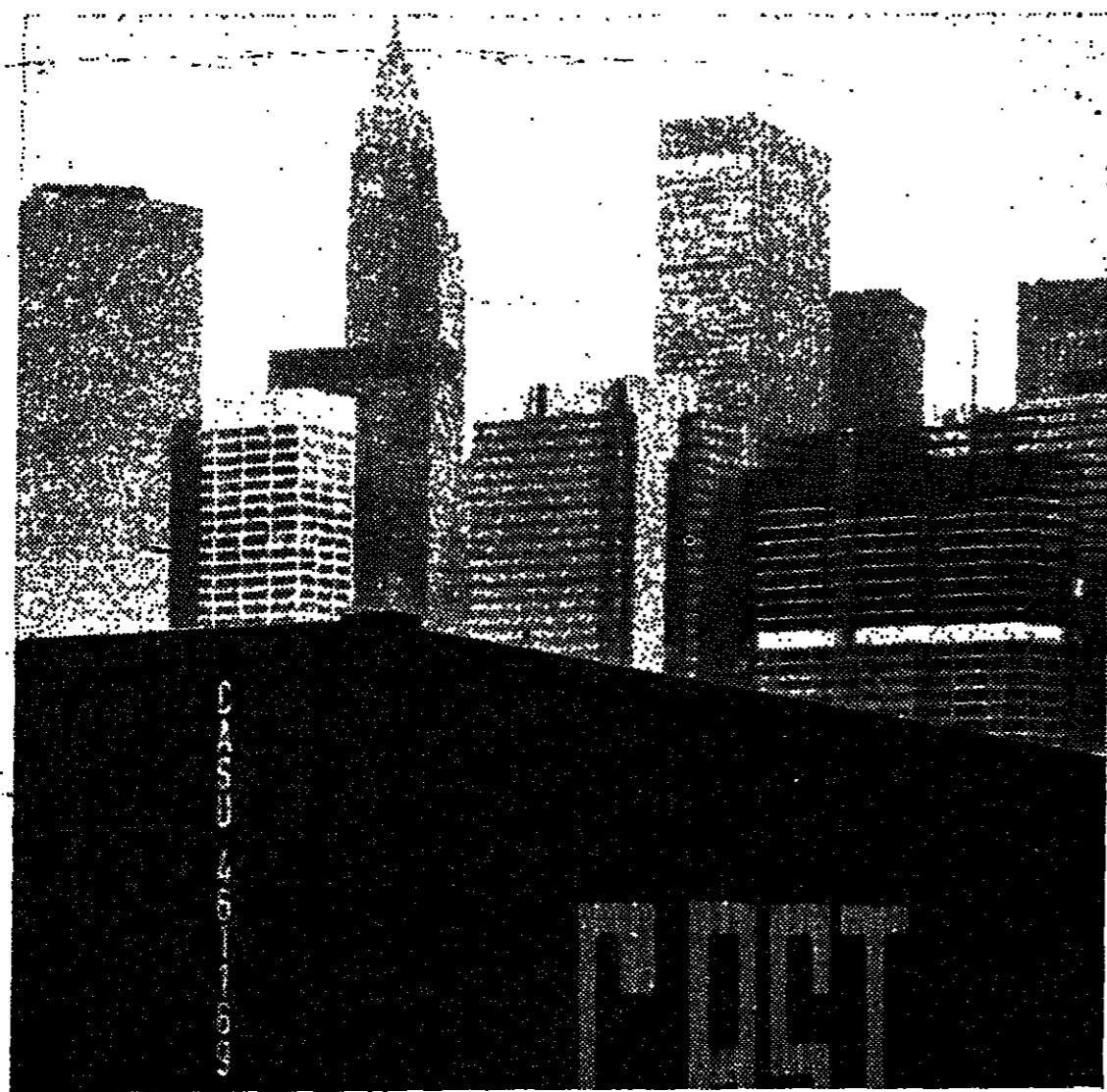
## Waste energy project

WESTINGHOUSE HAS set up a division in Pittsburgh to sell systems to obtain heat from waste products. The division is selling a water-cooled combustor developed by the O'Connor Combustor Corporation, which Westinghouse acquired two years ago.

The company says this system harnesses solid waste particularly effectively to give high energy. Heat from the burning action can be transferred to steam to drive an electricity generator.

Westinghouse has sold nine of these systems worldwide. One combustor is burning 210 tonnes of refuse a day in Gallatin, Tennessee, while the company is installing a further system in Bay County, Florida, which will process 510 tonnes of waste daily.

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Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. Man. Co. Ltd (UK)</b> 99-101 London EC4M 6AE</p> <p><b>Swiss Life Pln. Trst. 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55/10/44

## INSURANCE, OVERSEAS & MONEY FUNDS

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## COMMODITIES AND AGRICULTURE

# Lonrho in further talks on large scale Mozambique investment

BY PATTI WALDMER IN MAPUTO

Lonrho is understood to be close to formal agreement with the government of Mozambique on agricultural and gold mining agreements to consolidate its position as the biggest private investor in the country.

A Lonrho spokesman said that company officials are due to visit Maputo this week for a further round of talks.

Mr Tiny Rowland, Lonrho's chief executive, who has extensive business interests throughout South Africa, is described as an enabling accord last April, covering a wide range of activities in agriculture, mining and tourism, but involving no specific commitments.

The two sides have also signed a protocol covering the development of gold mines in the province of Manica, near the Zimbabwe border, but this has yet to be formalised.

Mr Rowland, and other Lonrho representatives, are said to have made frequent trips to the Mozambique capital over the past few months to finalise these agreements.

Mozambique's minister for mineral resources, Mr Abdul Majid Osman, says he is optimistic that formal agreements can be reached with Lonrho

this month on developing large and alluvial mines in Manica province, involving Lonrho in a small initial investment of about \$1m (\$572,200).

Mr Osman said the Government estimated gold reserves in the area at 50 tonnes, although he was optimistic that full exploration might show reserves of two to three times that amount.

The government's goal was to produce about four to five tonnes of gold per year, yielding foreign exchange earnings of about \$50m. Businessmen close to the negotiations say Lonrho has insisted on a renegotiation of the initial production-sharing arrangement involved in the protocol, but Mr Osman said he did not believe this would be a serious barrier to formalisation.

It was understood in Maputo that an umbrella agreement covering joint agricultural ventures in the central province of Sofala, and Gaza and Maputo provinces in the south, was also close to conclusion. Mr Ennes Comiche, the Vice-minister of finance, who is the government official responsible for foreign investment, said the aim was to develop agricultural projects covering the country, but would generate

export earnings to cover the foreign exchange costs of inputs for the projects, as well as debt service in the initial stages and the repatriation of profits and dividends.

He said attempts had been made to interest Lonrho in investing in the following areas: production of cotton, tobacco, citrus, livestock, cereals, and the production and processing of horticultural crops. Planting of cotton had already begun at Metochira, in Sofala province, he said, and the company was preparing to begin livestock and citrus production at Umbeluzi, near Maputo. The company was understood to have expressed interest in a vegetable canning plant near Chokwe, 200 km from Maputo, as well as in the 324 km Idanha sawmill, a private board factory in Manica province and in tobacco production near the Zimbabwe border.

Mr Comiche said talks were due to take place late this month to formalise a tourism protocol signed in September 1984, under which Lonrho will take over the management of the capital's premier hotel, the Polana (as well as an unspecified capital injection), and the Dora Carter Hotel in Beira. The company is believed to be

interested in developing tourism on the Santa Carolina Islands in the Mozambique channel.

Those close to the negotiations say that Lonrho's total investment in Mozambique might amount to some \$30-40m over the next five to six years. They say funding may also be forthcoming from the International Finance Corporation. The World Bank affiliate which finances private sector projects in the Third World.

Mr Rowland, who is said to be close to President Samora Machel, made his mark in the country last year by flying in a gift of seed maize from Kenya during Mozambique's devastating drought and by reportedly donating \$1m for sanitation and other purposes in the city of Maputo.

Although government officials report a steady flow of enquiries from interested foreign investors following the publication of a liberal foreign investment code last year, Lonrho is one of very few such companies who have been willing to brave the security threat posed by South African-backed guerrillas of the Mozambique National Resistance to actually set up in the country.

## Brittan renews tin debt pledge

BY STEFAN WAGSTYL

BRITAIN yesterday renewed its pledge to meet in full its share of the debts of the International Tin Council, in spite of every sign that most of its fellow council members are as far away as ever from following suit.

Mr Leon Brittan, Trade and Industry Secretary, marked the first day of the council's latest emergency meeting on the crisis by saying that the Government was continuing to press the other 21 Tin Council members to promise to honour the council's debts running into hundreds of millions of pounds to banks and metal brokers.

The appeal won no more support yesterday than it had when it was first made nearly a month ago.

This is the fifth council meeting since the crisis on October 23 when the ITC ran out of money in its attempts to support tin prices. Delegates have promised to stay in session until a "definitive decision" has been reached.

Delegates spent much of yesterday in separate meetings of tin consumer and producer countries. Their ideas are expected to be pooled at a full council meeting today.

One idea which appeared to be gaining ground among both producers and consumers was for a burden sharing plan under which creditor banks and brokers would be pressed to accept something less than 100 per cent repayment of their loans and debts.

So far, the creditors have been adamantly opposed to such suggestions. One version of the burden sharing proposals would involve producer countries paying up the \$20m they promised in the Tin Council at a meeting in Canberra in September, and consumer countries matching this with a further \$20m.

However, the idea of burden sharing has a long way to go before it even becomes a formal proposal put to the Tin Council, let alone to the creditors.

Even its supporters, who include the European Commission, have been reluctant to commit themselves solely to the plan. Several countries are as unwilling as ever to move from their insistence that they have no legal responsibility for the ITC debts. They fear that the plan is a "burden sharing" would be a tacit admission of responsibility.

Boonson K'hanza adds: Thailand is attempting to break its dependence on established international tin markets by setting up its own market that will fix reference prices for Thai tin, in a move hoped to bolster the alloy's local industry.

Discussions have been going on between the Thai Government and Thailand Smelting and Refining, the country's premier tin smelter operated by the Royal Dutch/Shell Group, on the proposed establishment of a mechanism to set daily price levels, by matching up bid and offered prices forwarded by buyers and sellers.

The proposed pricing mechanism would come into use in the absence of quotations at London Metal Exchange, Kuala Lumpur tin market or when trading there became turbulent.

The establishment of a pricing mechanism was approved by the cabinet as part of its rescue package to enable local industry to survive through the present and future crisis.

Previously, Thailand fixed tin royalty based on quotations at Kuala Lumpur.

**LONDON METAL EXCHANGE WAREHOUSE STOCKS**  
(Changes during week ending last Friday)

(tonnes)	Aluminium	Copper	Nickel	Tin	Zinc	Silver
Aluminium	+1,750 to 215,750					
Copper	-2,725 to 185,000					
Nickel	-4,475 to 57,700					
Tin	-12 to 4,484					
Zinc	-85 to 49,525					
Silver	+3,050 to 24,475					
	+450,000 to 51,790,000					

## Continued fall in spot oil prices

BY RICHARD JOHNS

PRICES on the oil spot market continued to slide yesterday. Brent Blend down to a buyer's bid of \$29.09-29.05 for December deliveries following a fall last week of nearly \$2 from the high point of \$30.75-\$30.85.

British sold one cargo of Brent to Sun Oil for January delivery at \$27.97, according to traders who see the steep fall as probably marking — depending on the severity of the northern hemisphere winter — the end of a period of surprising relative strength.

Underlying the weaker crude market has been the sudden drop in demand for products. The oil spot market was off yesterday as at \$26.26 per tonne compared with \$27.13 last Friday and \$29.93 a week before.

The futures market also points to a heavy supply surplus with the rate for West Texas Intermediate for January down 68 cents to \$29.11 in morning trading as the New York Mercantile Exchange reopened for business after the Thanksgiving holiday.

Traders see the drop in spot rates as a return to normality after what now appears to have been a considerable overheating of the market in November and especially in the third week of last month. The surge of activity was caused by an intensification of buying by

refiners, stimulated in part by cold weather and improved margins, but for the time being, with stocks high, it has come to an end leaving many intermediaries in the market with unwanted crude on their hands.

The slump will make gloomy reading for member states of the Organisation of Petroleum Exporting Countries which starts a ministerial meeting in Geneva on December 7 and is bound to sharpen argument over price discounting and failure-to-honour-output quotas.

AGIP, the Italian national oil company, is to go ahead with developing a new offshore oil field in the Gulf of Guinea, off the coast of Nigeria.

## US to mint gold bullion coins

THE U.S. House of Representatives passed and sent to President Reagan a bill authorising the Treasury to mint gold bullion coins as competition for the South African Kruggerand.

The bill authorises the minting of gold coins in four sizes including a one-ounce coin with a face value of \$50, a quarter-ounce coin valued at \$10, and a one-tenth-ounce coin valued at \$5.

Mr Reagan banned imports of Kruggerands on October 1 as part of a series of economic sanctions against South Africa to protest its apartheid policies. Reuter

## LONDON MARKETS

COFFEE futures rose sharply in London yesterday in heavy trading on the back of renewed fears about drought damage to next year's Brazilian crop, which also sent the New York market up to the four-cent limit. The rise, which occurred despite a brief surge in sterling, followed news from the US private weather forecaster Accu that Brazilian growing areas had had a rain-free weekend and were likely to remain dry and warm yesterday and today. Some dealers expect the damage caused by the drought to disrupt Brazilian supplies, which account for almost a third of all exports, more than a heavy rain would have done. They were also firm yesterday, boosted by concern over damage to the Cuban crop from the recent hurricane. In afternoon trading, oil values were at their highest level since October 1984.

LME prices supplied by Amalgamated Metal Trading.

## ALUMINIUM

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## COPPER

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## LEAD

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## NICKEL

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## ZINC

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## GOLD

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## SILVER

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## GRAINS

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## WHEAT

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## COTTON

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## MEAT

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## INDICES

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## REUTERS

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## DOW JONES

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## MAIN PRICE CHANGES

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## METALS

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## SEEDS

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## OTHERS

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## COCOA

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## COFFEE

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## POTATOES

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## SOYABEAN MEAL

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## CRUDE OIL

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## SUGAR

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## RUBBER

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## US MARKETS

PRECIOUS METALS, after early losses, recovered to close steady as platinum maintained a firm tone. Reports of a possible copper and aluminium commodities under a 2000-tonne level in response to LME stock levels. Sugar moved sharply higher on good Far Eastern buying, which touched off commission house bids. Coffee was limited up on panic buying by roasters linked to commission house supply. Soyabean meal moved higher on a report of a possible soyabean meal shortage in the North Eastern US.

## NEW YORK

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## CHICAGO

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## LIVE CATTLE

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## LIVE HOGS

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## MAIZE

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## COTTON

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## CRUDE OIL

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## WHEAT

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## SPOT PRICES

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## OIL

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## CRUDE OIL

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## WHEAT

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## ORANGE JUICE

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## PLATINUM

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## SILVER

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## SUGAR

Official closing (am): Cash 263.25 (263.25), three months 275.25 (275.25), final Korb close: 275.25 (275.25). Turnover: 13,375 tonnes.

## CRUDE OIL

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## WHEAT

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## SPOT PRICES

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## CURRENCIES, MONEY and CAPITAL MARKETS

## FOREIGN EXCHANGES

## Dollar up after 2½-year low

The dollar recovered in late European trading, after touching its lowest level for about 2½ years in the early afternoon. Covering 25-hour positions and some commercial demand helped the U.S. currency improve, but there was no change in the fundamental factors surrounding the dollar. Recent signs of slow U.S. economic growth remain a depressing factor, particularly against the D-mark and sterling. The D-mark is particularly attractive after good German figures on trade and inflation, plus recent comments by German officials rejecting calls for a more relaxed monetary policy. High London interest rates continue to attract money into London. Yesterday's U.S. economic figures had little impact, with construction rising 1.7 per cent in October. Non-farm productivity increased by 2.1 per cent in September. Against a previous estimate of 1.2 per cent.

The dollar rose to DM 2.5210

## POUND SPOT—FORWARD AGAINST POUND

Dec 2	Day's spread	Close	One month	Three months	6 months
US	1.4835-1.5020	1.4870-1.4980	0.45-0.46 pm	3.51-1.19-1.14pm	3.73
Canada	2.0619-2.0753	2.0619-2.0643	0.45-0.46 pm	2.50-1.21-0.70pm	2.21
Belgium	75.90-76.35	75.90-76.35	2.2-2.3 pm	6.00-5.50 pm	3.40
Denmark	13.56-13.61	13.56-13.61	2.2-2.3 pm	2.65-1.41 pm	2.06
France	165.10-165.15	165.10-165.15	2.2-2.3 pm	1.23-0.14 pm	1.23
Germany	2.5210-2.5215	2.5210-2.5215	2.2-2.3 pm	7.20-5.16 pm	6.83
Italy	235.21-241.35	235.21-241.35	1.25-1.26 pm	17.05-1.25 pm	18.14
Japan	232.00-232.05	232.00-232.05	1.25-1.26 pm	7.20-5.16 pm	6.83
Norway	11.42-11.47	11.42-11.47	1.25-1.26 pm	1.25-1.26 pm	1.25
Sweden	11.33-11.42	11.33-11.42	1.25-1.26 pm	1.25-1.26 pm	1.25
Switzerland	1.4835-1.4840	1.4835-1.4840	1.25-1.26 pm	1.25-1.26 pm	1.25
Austria	13.56-13.61	13.56-13.61	1.25-1.26 pm	1.25-1.26 pm	1.25
Spain	165.10-165.15	165.10-165.15	1.25-1.26 pm	1.25-1.26 pm	1.25
UK	1.4835-1.5020	1.4870-1.4980	0.45-0.46 pm	3.51-1.19-1.14pm	3.73

## DOLLAR SPOT—FORWARD AGAINST DOLLAR

Dec 2	Day's spread	Close	One month	Three months	6 months
UK	1.4835-1.5020	1.4870-1.4980	0.45-0.46 pm	3.51-1.19-1.14pm	3.73
Canada	2.0619-2.0753	2.0619-2.0643	0.45-0.46 pm	2.50-1.21-0.70pm	2.21
Belgium	75.90-76.35	75.90-76.35	2.2-2.3 pm	6.00-5.50 pm	3.40
Denmark	13.56-13.61	13.56-13.61	2.2-2.3 pm	2.65-1.41 pm	2.06
France	165.10-165.15	165.10-165.15	2.2-2.3 pm	1.23-0.14 pm	1.23
Germany	2.5210-2.5215	2.5210-2.5215	2.2-2.3 pm	7.20-5.16 pm	6.83
Italy	235.21-241.35	235.21-241.35	1.25-1.26 pm	17.05-1.25 pm	18.14
Japan	232.00-232.05	232.00-232.05	1.25-1.26 pm	7.20-5.16 pm	6.83
Norway	11.42-11.47	11.42-11.47	1.25-1.26 pm	1.25-1.26 pm	1.25
Sweden	11.33-11.42	11.33-11.42	1.25-1.26 pm	1.25-1.26 pm	1.25
Switzerland	1.4835-1.4840	1.4835-1.4840	1.25-1.26 pm	1.25-1.26 pm	1.25
Austria	13.56-13.61	13.56-13.61	1.25-1.26 pm	1.25-1.26 pm	1.25
Spain	165.10-165.15	165.10-165.15	1.25-1.26 pm	1.25-1.26 pm	1.25
UK	1.4835-1.5020	1.4870-1.4980	0.45-0.46 pm	3.51-1.19-1.14pm	3.73

## EXCHANGE CROSS RATES

Dec 2	£	DM	YEN	FFr.	SFr.	H.K.	Lira	C\$	SFr.
£	1.0000	3.7500	160.36	11.44	5.130	4.310	25.50	2.063	75.93
DM	0.267	1.0000	36.36	2.63	1.36	1.19	7.56	0.51	18.75
YEN	0.0062	0.0248	1.0000	0.34	0.25	0.21	1.61	0.015	0.56
FFr.	0.015	0.056	0.293	1.0000	0.16	0.14	0.95	0.0013	0.48
SFr.	0.019	0.075	0.375	0.625	1.0000	0.85	5.76	0.018	0.68
H.K.	0.025	0.092	0.476	0.271	0.243	1.0000	18.04	0.002	0.74
Lira	0.039	0.148	0.708	0.484	0.427	0.131	1.0000	0.003	2.76
C\$	0.485	1.817	8.717	0.542	0.517	0.240	12.56	1.0000	36.36
SFr.	0.019	0.075	0.375	0.625	1.0000	0.85	5.76	0.018	0.68

## EURO-CURRENCY INTEREST RATES

Dec 2	Short term	7 days notice	1 month	Three months	Six months	One year
Dollar	11 1/4	11 1/4	11 1/4	11 1/4	11 1/4	11 1/4
£	9 3/4	9 3/4	9 3/4	9 3/4	9 3/4	9 3/4
DM	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2
YEN	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2
FFr.	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2
SFr.	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2
H.K.	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2
Lira	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2
C\$	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2
SFr.	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2

## MONEY MARKETS

## Bank urges cautious approach

The Bank of England provided more than adequate assistance in the London money market yesterday, but in such a way as to encourage hopes of an early cut in clearing bank rates. The authorities' preference to provide a large chunk of late borrowing when many operators had hoped for sale and repurchase agreements tended to offset any encouragement gleaned from sterling's break to above \$1.50. As a result of the over help, short term money touched a low of 2 per cent, having been as high as 15 per cent after an opening level of 11-12 per cent. Late balances were taken around 5 per cent. Longer term rates were a little easier with three-month interbank money down to 11-12 per cent compared with 12-13 per cent and three-month eligible bank bills bid at 11-12 per cent from 12 per cent.

The Bank of England forecast a shortage of around £1,000m with factors affecting the market including maturing assistance and a take up of Treasury bills following draining of £500m and repurchase agreements a further £250m. Exchequer transactions drained an additional £100m from banks brought forward balances £170m below target. These were partly offset by a fall in the note circulation of £30m in the morning of £30m through

## MONEY RATES

Dec 2	Over night	One month	Three months	Six months	One year
Frankfurt	5.00-5.25	4.75-4.90	4.50-4.75	4.25-4.50	4.00-4.25
Paris	5.00-5.25	4.75-4.90	4.50-4.75	4.25-4.50	4.00-4.25
Zurich	5.00-5.25	4.75-4.90	4.50-4.75	4.25-4.50	4.00-4.25
Amsterdam	5.00-5.25	4.75-4.90	4.50-4.75	4.25-4.50	4.00-4.25
London	5.00-5.25	4.75-4.90	4.50-4.75	4.25-4.50	4.00-4.25
Brexit	5.00-5.25	4.75-4.90	4.50-4.75	4.25-4.50	4.00-4.25
Dublin	5.00-5.25	4.75-4.90	4.50-4.75	4.25-4.50	4.00-4.25

## FUTURES AND OPTIONS

## Confused trading

Index rose 0.1 to 80.1. It opened at 81.2, the low 81.2, and rose to a peak of 81.7 at noon. Six months ago the index was 80.3.

Sterling failed to maintain a level above \$1.50—the first time the pound had reached this point for over two years—touching a high of \$1.5026, and finished 10 points weaker on the day at \$1.4870-1.4980. Sterling was strong against other major currencies, however, rising 10 DM 3.75 from DM 3.7375; FFr 11.4350 from FFr 11.4125; SFr 11.33 from SFr 11.3075; and ¥302.50 from ¥300.75.

**DEUTSCHE MARK**—Trading range against the dollar in 1985 is 3.4510 to 2.5110. November average 2.5926. Exchange rate ladder 12.54 against 12.11 six months ago.

The Deutsche Mark finished little changed against the dollar in Frankfurt, after the U.S. currency recovery from the low of DM 2.4920 touched in the early afternoon. Short covering and commercial buying ahead of the year end pulled the dollar back to DM 2.5095.

## CURRENCY MOVEMENTS

Nov. 29	Bank of England	Morgan	Guaranty	Change
Sterling	81.4	81.4	81.4	-0.1
U.S. dollar	81.4	81.4	81.4	-0.1
Canadian dollar	81.4	81.4	81.4	-0.1
Belgian franc	81.4	81.4	81.4	-0.1
French franc	81.4	81.4	81.4	-0.1
Italian lire	81.4	81.4	81.4	-0.1
Japanese yen	81.4	81.4	81.4	-0.1
Norwegian krone	81.4	81.4	81.4	-0.1
Swedish krona	81.4	81.4	81.4	-0.1
Swiss franc	81.4	81.4	81.4	-0.1
U.S. dollar	81.4	81.4	81.4	-0.1

## OTHER CURRENCIES

Nov. 29	Close	High	Low	Prev
Argentine	1.1912-1.1935	1.1935	1.1912	1.1935
Australia	2.0502-2.0509	2.0509	2.0502	2.0509
Canada	2.0619-2.0643	2.0643	2.0619	2.0643
Denmark	13.56-13.61	13.61	13.56	13.61
France	165.10-165.15	165.15	165.10	165.15
Germany	2.5210-2.5215	2.5215	2.5210	2.5215
Italy	235.21-241.35	241.35	235.21	241.35
Japan	232.00-232.05	232.05	232.00	232.05
Norway	11.42-11.47	11.47	11.42	11.47
Sweden	11.33-11.42	11.42	11.33	11.42
Switzerland	1.4835-1.4840	1.4840	1.4835	1.4840
Austria	13.56-13.61	13.61	13.56	13.61
Spain	165.10-165.15	165.15	165.10	165.15
UK	1.4835-1.5020	1.5020	1.4835	1.5020

## EMS EUROPEAN CURRENCY UNIT RATES

Dec 2	£	DM	YEN	FFr.	SFr.	H.K.	Lira	C\$	SFr.
£	1.0000	3.7500	160.36	11.44	5.130	4.310	25.50	2.063	75.93
DM	0.267	1.0000	36.36	2.63	1.36	1.19	7.56	0.51	18.75
YEN	0.0062	0.0248	1.0000	0.34	0.25	0.21	1.61	0.015	0.56
FFr.	0.015	0.056	0.293	1.0000	0.16	0.14	0.95	0.0013	0.48
SFr.	0.019	0.075	0.375	0.625	1.0000	0.85	5.76	0.018	0.68
H.K.	0.025	0.092	0.476	0.271	0.243	1.0000	18.04	0.002	0.74
Lira	0.039	0.148	0.708	0.484	0.427	0.131	1.0000	0.003	2.76
C\$	0.485	1.817	8.717	0.542	0.517	0.240	12.56	1.0000	36.36
SFr.	0.019	0.075	0.375	0.625	1.0000	0.85	5.76	0.018	0.68

## FT LONDON INTERBANK FIXING

Dec 2	Over night	7 days notice	One month	Three months	Six months	One year
Interbank	2.15	11.12	11.12	11.12	11.12	11.12
Local Authority Deposits	11.12	11.12	11.12	11.12	11.12	11.12
Local Authority Loans	11.12	11.12	11.12	11.12	11.12	11.12
Discount rate	11.12	11.12	11.12	11.12	11.12	11.12
Cash rate	11.12	11.12	11.12	11.12	11.12	11.12
Three month	11.12	11.12	11.12	11.12	11.12	11.12
Six month	11.12	11.12	11.12	11.12	11.12	11.12
One year	11.12	11.12	11.12	11.12	11.12	11.12

The fixing rates are the announced means, rounded to the nearest cent, of the bid and offered rates for \$100m quoted by the market to Park and Morgan Guaranty Trust.

## LONDON MONEY RATES

Dec 2	Over night	7 days notice	One month	Three months	Six months	One year
Interbank	2.15	11.12	11.12	11.12	11.12	11.12
Local Authority Deposits	11.12	11.12	11.12	11.12	11.12	11.12
Local Authority Loans	11.12	11.12	11.12	11.12	11.12	11.12
Discount rate	11.12	11.12	11.12	11.12	11.12	11.12
Cash rate	11.12	11.12	11.12	11.12	11.12	11.12
Three month	11.12	11.12	11.12	11.12	11.12	11.12
Six month	11.12	11.12	11.12	11.12	11.12	11.12
One year	11.12	11.12	11.12	11.12	11.12	11.12

## LONDON MONEY RATES

Dec 2	Over night	7 days notice	One month	Three months	Six months	One year
Interbank	2.15	11.12	11.12	11.12	11.12	11.12
Local Authority Deposits	11.12	11.12	11.12	11.12	11.12	11.12
Local Authority Loans	11.12	11.12	11.12	11.12	11.12	11.12
Discount rate	11.12	11.12	11.12	11.12	11.12	11.12
Cash rate	11.12	11.12	11.12	11.12	11.12	11.12
Three month	11.12	11.12	11.12	11.12	11.12	11.12
Six month	11.12	11.12	11.12	11.12	11.12	11.12
One year	11.12	11.12	11.12	11.12	11.12	11.12

## LONDON MONEY RATES

Dec 2	Over night	7 days notice	One month	Three months	Six months	One year
Interbank	2.15	11.12	11.12	11.12	11.12	11.12
Local Authority Deposits	11.12	11.12	11.12	11.12	11.12	11.12
Local Authority Loans	11.12	11.12	11.12	11.12	11.12	11.12
Discount rate	11.12	11.12	11.12	11.12	11.12	11.12
Cash rate	11.12	11.12	11.12	11.12	11.12	11.12
Three month	11.12	11.12	11.12	11.12	11.12	11.12
Six month	11.12	11.12	11.12	11.12	11.12	11.12
One year	11.12	11.12	11.12	11.12	11.12	11.12

## LONDON

Dec 2	Over night	
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**LEISURE—Continued**

1945	High	Low	Stock	Price	%	Net	Grv	YH	Pk
52	52	52	66-Entertainment Press Inc	10	-1	66-25	21	32.1	16
53	53	53	Farmer Bros Food	10	-1	66-25	24	44	11.5
54	54	54	Farmer Bros Food	290	-2	66-25	24	18.2	4
55	55	55	Farmer Bros Food	64 1/2	-1	66-25	24	18.2	4
56	56	56	GFA Group Inc	10	-1	66-25	24	18.2	4
57	57	57	GFA Group Inc	10	-1	66-25	24	18.2	4
58	58	58	GFA Group Inc	10	-1	66-25	24	18.2	4
59	59	59	GFA Group Inc	10	-1	66-25	24	18.2	4
60	60	60	GFA Group Inc	10	-1	66-25	24	18.2	4
61	61	61	GFA Group Inc	10	-1	66-25	24	18.2	4
62	62	62	GFA Group Inc	10	-1	66-25	24	18.2	4
63	63	63	GFA Group Inc	10	-1	66-25	24	18.2	4
64	64	64	GFA Group Inc	10	-1	66-25	24	18.2	4
65	65	65	GFA Group Inc	10	-1	66-25	24	18.2	4
66	66	66	GFA Group Inc	10	-1	66-25	24	18.2	4
67	67	67	GFA Group Inc	10	-1	66-25	24	18.2	4
68	68	68	GFA Group Inc	10	-1	66-25	24	18.2	4
69	69	69	GFA Group Inc	10	-1	66-25	24	18.2	4
70	70	70	GFA Group Inc	10	-1	66-25	24	18.2	4
71	71	71	GFA Group Inc	10	-1	66-25	24	18.2	4
72	72	72	GFA Group Inc	10	-1	66-25	24	18.2	4
73	73	73	GFA Group Inc	10	-1	66-25	24	18.2	4
74	74	74	GFA Group Inc	10	-1	66-25	24	18.2	4
75	75	75	GFA Group Inc	10	-1	66-25	24	18.2	4
76	76	76	GFA Group Inc	10	-1	66-25	24	18.2	4
77	77	77	GFA Group Inc	10	-1	66-25	24	18.2	4
78	78	78	GFA Group Inc	10	-1	66-25	24	18.2	4
79	79	79	GFA Group Inc	10	-1	66-25	24	18.2	4
80	80	80	GFA Group Inc	10	-1	66-25	24	18.2	4
81	81	81	GFA Group Inc	10	-1	66-25	24	18.2	4
82	82	82	GFA Group Inc	10	-1	66-25	24	18.2	4
83	83	83	GFA Group Inc	10	-1	66-25	24	18.2	4
84	84	84	GFA Group Inc	10	-1	66-25	24	18.2	4
85	85	85	GFA Group Inc	10	-1	66-25	24	18.2	4
86	86	86	GFA Group Inc	10	-1	66-25	24	18.2	4
87	87	87	GFA Group Inc	10	-1	66-25	24	18.2	4
88	88	88	GFA Group Inc	10	-1	66-25	24	18.2	4
89	89	89	GFA Group Inc	10	-1	66-25	24	18.2	4
90	90	90	GFA Group Inc	10	-1	66-25	24	18.2	4
91	91	91	GFA Group Inc	10	-1	66-25	24	18.2	4
92	92	92	GFA Group Inc	10	-1	66-25	24	18.2	4
93	93	93	GFA Group Inc	10	-1	66-25	24	18.2	4
94	94	94	GFA Group Inc	10	-1	66-25	24	18.2	4
95	95	95	GFA Group Inc	10	-1	66-25	24	18.2	4
96	96	96	GFA Group Inc	10	-1	66-25	24	18.2	4
97	97	97	GFA Group Inc	10	-1	66-25	24	18.2	4
98	98	98	GFA Group Inc	10	-1	66-25	24	18.2	4
99	99	99	GFA Group Inc	10	-1	66-25	24	18.2	4
100	100	100	GFA Group Inc	10	-1	66-25	24	18.2	4

[illegible][illegible]

Finance, Land, etc.									
2185									
High	Low	Stock	Price	Div	Yld	P/E			
2185	210	Albuquerque 100	218	-	125	0 0			210
2190	130	Alcoa 100	1700	-	10 1/2	0 1			2190
2195	260	Aluminum 100	5450	-	175	0 0			2195
2200	260	Aluminum 100	5450	-	175	0 0			2200
2205	260	Aluminum 100	5450	-	175	0 0			2205
2210	260	Aluminum 100	5450	-	175	0 0			2210
2215	260	Aluminum 100	5450	-	175	0 0			2215
2220	260	Aluminum 100	5450	-	175	0 0			2220
2225	260	Aluminum 100	5450	-	175	0 0			2225
2230	260	Aluminum 100	5450	-	175	0 0			2230
2235	260	Aluminum 100	5450	-	175	0 0			2235
2240	260	Aluminum 100	5450	-	175	0 0			2240
2245	260	Aluminum 100	5450	-	175	0 0			2245
2250	260	Aluminum 100	5450	-	175	0 0			2250
2255	260	Aluminum 100	5450	-	175	0 0			2255
2260	260	Aluminum 100	5450	-	175	0 0			2260
2265	260	Aluminum 100	5450	-	175	0 0			2265
2270	260	Aluminum 100	5450	-	175	0 0			2270
2275	260	Aluminum 100	5450	-	175	0 0			2275
2280	260	Aluminum 100	5450	-	175	0 0			2280
2285	260	Aluminum 100	5450	-	175	0 0			2285
2290	260	Aluminum 100	5450	-	175	0 0			2290
2295	260	Aluminum 100	5450	-	175	0 0			2295
2300	260	Aluminum 100	5450	-	175	0 0			2300
2305	260	Aluminum 100	5450	-	175	0 0			2305
2310	260	Aluminum 100	5450	-	175	0 0			2310
2315	260	Aluminum 100	5450	-	175	0 0			2315
2320	260	Aluminum 100	5450	-	175	0 0			2320
2325	260	Aluminum 100	5450	-	175	0 0			2325
2330	260	Aluminum 100	5450	-	175	0 0			2330
2335	260	Aluminum 100	5450	-	175	0 0			2335
2340	260	Aluminum 100	5450	-	175	0 0			2340
2345	260	Aluminum 100	5450	-	175	0 0			2345
2350	260	Aluminum 100	5450	-	175	0 0			2350
2355	260	Aluminum 100	5450	-	175	0 0			2355
2360	260	Aluminum 100	5450	-	175	0 0			2360
2365	260	Aluminum 100	5450	-	175	0 0			2365
2370	260	Aluminum 100	5450	-	175	0 0			2370
2375	260	Aluminum 100	5450	-	175	0 0			2375
2380	260	Aluminum 100	5450	-	175	0 0			2380
2385	260	Aluminum 100	5450	-	175	0 0			2385
2390	260	Aluminum 100	5450	-	175	0 0			2390
2395	260	Aluminum 100	5450	-	175	0 0			2395
2400	260	Aluminum 100	5450	-	175	0 0			2400
2405	260	Aluminum 100	5450	-	175	0 0			2405
2410	260	Aluminum 100	5450	-	175	0 0			2410
2415	260	Aluminum 100	5450	-	175	0 0			2415
2420	260	Aluminum 100	5450	-	175	0 0			2420
2425	260	Aluminum 100	5450	-	175	0 0			2425
2430	260	Aluminum 100	5450	-	175	0 0			2430
2435	260	Aluminum 100	5450	-	175	0 0			2435
2440	260	Aluminum 100	5450	-	175	0 0			2440
2445	260	Aluminum 100	5450	-	175	0 0			2445
2450	260	Aluminum 100	5450	-	175	0 0			2450
2455	260	Aluminum 100	5450	-	175	0 0			2455
2460	260	Aluminum 100	5450	-	175	0 0			2460
2465	260	Aluminum 100	5450	-	175	0 0			2465
2470	260	Aluminum 100	5450	-	175	0 0			2470
2475	260	Aluminum 100	5450	-	175	0 0			2475
2480	260	Aluminum 100	5450	-	175	0 0			2480
2485	260	Aluminum 100	5450	-	175	0 0			2485
2490	260	Aluminum 100	5450	-	175	0 0			2490
2495	260	Aluminum 100	5450	-	175	0 0			2495
2500	260	Aluminum 100	5450	-	175	0 0			2500
2505	260	Aluminum 100	5450	-	175	0 0			2505
2510	260	Aluminum 100	5450	-	175	0 0			2510
2515	260	Aluminum 100	5450	-	175	0 0			2515
2520	260	Aluminum 100	5450	-	175	0 0			2520
2525	260	Aluminum 100	5450	-	175	0 0			2525
2530	260	Aluminum 100	5450	-	175	0 0			2530
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2545	260	Aluminum 100	5450	-	175	0 0			2545
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2595	260	Aluminum 100	5450	-	175	0 0			2595
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2645	260	Aluminum 100	5450	-	175	0 0			2645
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2660	260	Aluminum 100	5450	-	175	0 0			2660
2665	260	Aluminum 100	5450	-	175	0 0			2665
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2675	260	Aluminum 100	5450	-	175	0 0			2675
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2955	260	Aluminum 100	5450	-	175	0 0			2955
2960									

Teas		Mines	
55	Wakayuki Pk 100	56	1
56	New Essex inst. 100	57	2
57	Wakayuki Pk 100	58	3
58	New Essex inst. 100	59	4
59	Wakayuki Pk 100	60	5
60	New Essex inst. 100	61	6
61	Wakayuki Pk 100	62	7
62	New Essex inst. 100	63	8
63	Wakayuki Pk 100	64	9
64	New Essex inst. 100	65	10
65	Wakayuki Pk 100	66	11
66	New Essex inst. 100	67	12
67	Wakayuki Pk 100	68	13
68	New Essex inst. 100	69	14
69	Wakayuki Pk 100	70	15
70	New Essex inst. 100	71	16
71	Wakayuki Pk 100	72	17
72	New Essex inst. 100	73	18
73	Wakayuki Pk 100	74	19
74	New Essex inst. 100	75	20
75	Wakayuki Pk 100	76	21
76	New Essex inst. 100	77	22
77	Wakayuki Pk 100	78	23
78	New Essex inst. 100	79	24
79	Wakayuki Pk 100	80	25
80	New Essex inst. 100	81	26
81	Wakayuki Pk 100	82	27
82	New Essex inst. 100	83	28
83	Wakayuki Pk 100	84	29
84	New Essex inst. 100	85	30
85	Wakayuki Pk 100	86	31
86	New Essex inst. 100	87	32
87	Wakayuki Pk 100	88	33
88	New Essex inst. 100	89	34
89	Wakayuki Pk 100	90	35
90	New Essex inst. 100	91	36
91	Wakayuki Pk 100	92	37
92	New Essex inst. 100	93	38
93	Wakayuki Pk 100	94	39
94	New Essex inst. 100	95	40
95	Wakayuki Pk 100	96	41
96	New Essex inst. 100	97	42
97	Wakayuki Pk 100	98	43
98	New Essex inst. 100	99	44
99	Wakayuki Pk 100	100	45

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## Indices

LONDON		Chief price changes (in pence unless otherwise indicated)	
RISES			
Argyll Group	348 +11	Boustead	53 - 8
Birmingham Mint	120 +15	Brit Home Stores	412 -20
British Benzol	42 + 4	BP	560 -10
Christies Int	288 + 8	Brownlee	63 - 8
Dominion Int	109 + 7	Cadbury Sch	188 - 7
Marley	122 + 4	Imperial Group	240 - 4
S & U Stores	35 + 6	Inceps	300 -13
Sinclair (Wm.)	158 +11	Jardine Math	107 - 8
Whitney	45 + 5	Libanon	945 -105
Wire & Plastic	290 +70	LASMO	220 - 8
Wood (S.W.)	28 + 5	Pilk Bros.	313 -12
Yarrow	500 +15	Polly Peck Int	170 -15
		Shell Trans	650 -13
		Tate & Lyle	578 -10
		Utd Biscuits	273 - 5
		Vickers	288 -10
FALLS			
Allied-Lyons	287 -13		
Anglo-Am Gold	£38% -45%		

**WALL ST.**

**US DOLLAR**  
**THE WORLD VALUE**  
**IN THE FT EVERY FRIDAY**

مکملہ جلد

Continued on Page 41

## AMEX COMPOSITE PRICES

Low	Close	Chgs	Stock	Div	P/E	Siz	100s	High	Low	Close	Chgs
6 1/2	- 1/8										
12 1/2	- 1/4		Rising	12	48	12	20 1/2	20 1/2	20 1/2	+	

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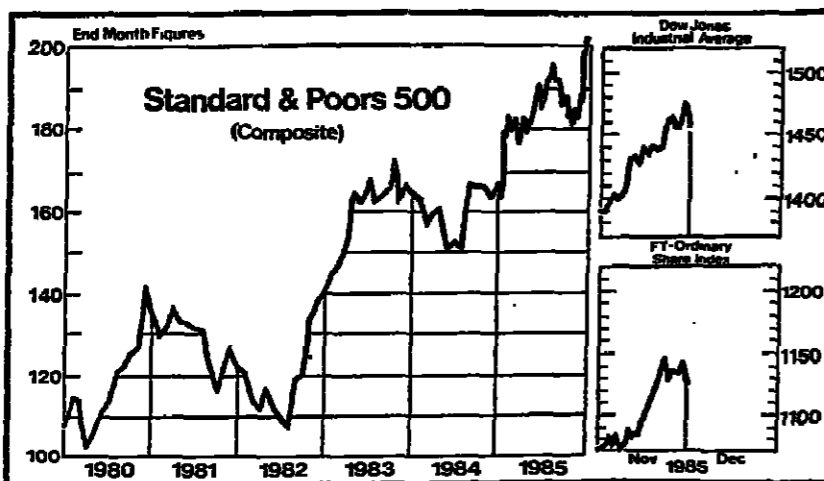
Nasdaq national market, 2.30pm prices

**Continued on Page 39**

# FINANCIAL TIMES

## WORLD STOCK MARKETS

### KEY MARKET MONITORS



STOCK MARKET INDICES	Dec 2	Previous	Year ago
NEW YORK			
DJ Industrials	1,456.65*	1,472.13	1,188.94
DJ Transport	687.03*	690.13	522.26
DJ Utilities	163.52*	164.03	145.62
S&P Composite	200.34*	202.17	163.58

LONDON	Dec 2	Previous	Year ago
FT 100	1,142.9	1,142.9	917.3
FT-A All-share	688.02	688.53	571.34
FT-A 500	755.02	755.73	626.59
FT Gold mines	285.8	285.8	544.3
FT-A Long gilt	10.26	10.28	10.12

TOKYO	Dec 2	Previous	Year ago
Nikkei	12,796.92	12,763.27	11,428.9
Tokyo SE	1,007.81	1,006.5	875.81

AUSTRALIA	Dec 2	Previous	Year ago
All Ord.	988.2	990.6	749.0
Metals & Mins.	488.1	490.6	439.7

AUSTRIA	Dec 2	Previous	Year ago
Credit Aktien	166.55	115.19	58.38

BELGIUM	Dec 2	Previous	Year ago
Belgian SE	2,962.96	2,965.07	—

CANADA	Dec 2	Previous	Year ago
Toronto	1,907.50*	1,929.92	1,873.00
Metals & Mins	2,835.1	2,857.1	2,368.5
Woodward	137.13*	138.40	118.27

DENMARK	Dec 2	Previous	Year ago
SE	223.55	223.91	168.28

FRANCE	Dec 2	Previous	Year ago
CAC Gen	245.1	247.5	181.0
Ind. Tendance	141.1	142.2	98.8

WEST GERMANY	Dec 2	Previous	Year ago
FAZ-Aktien	571.94	583.62	372.82
Commerzbank	1,689.2	1,725.6	1,089.9

HONG KONG	Dec 2	Previous	Year ago
Hang Seng	1,694.57	1,716.95	1,128.10

ITALY	Dec 2	Previous	Year ago
Banca Com.	444.11	440.07	215.15

NETHERLANDS	Dec 2	Previous	Year ago
ANP-CBS Gen	239.2	239.4	177.5
ANP-CBS Ind	217.0	216.7	140.1

NORWAY	Dec 2	Previous	Year ago
Olo SE	396.38	387.85	272.83

SINGAPORE	Dec 2	Previous	Year ago
Straits Times	susp.	695.43	817.58

SOUTH AFRICA	Dec 2	Previous	Year ago
JSE Golds	—	1,185.9	1,040.4
JSE Industrials	—	1,030.5	571.2

SPAIN	Dec 2	Previous	Year ago
Madrid SE	133.06	132.83	101.70

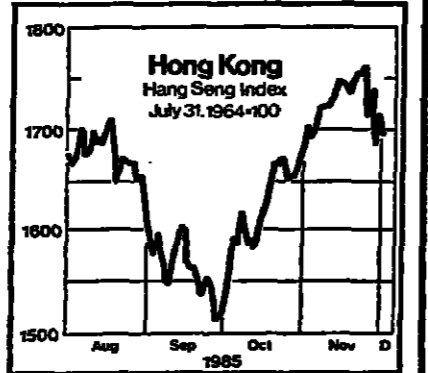
SWEDEN	Dec 2	Previous	Year ago
J & P	1,630.58	1,622.74	1,341.56

SWITZERLAND	Dec 2	Previous	Year ago
Swiss Bank Ind	545.9	542.2	377.6

WORLD	Dec 2	Previous	Year ago
Capital Int'l	245.6	245.4	184.3

GOLD (per ounce)	Dec 2	Previous	Year ago
London	\$318.75	\$325.00	\$265.65
Zürich	\$322.25	\$326.65	\$265.65
Paris (fixing)	\$325.08	\$328.70	\$265.65
Luxembourg	\$324.65	\$327.00	\$265.65
New York (Feb)	\$322.30	\$327.30	\$265.65

CURRENCIES	Dec 2	Previous	Year ago
(London)			
\$	2.521	2.511	3.75
DM	204.05	202.1	303.5
Yen	7.6875	7.6675	11.435
FFr	2.1035	2.081	3.13
Sfr	2.591	2.5205	4.21
Lira	1,714.5	1,714.5	2,550.0
BPf	51.05	51.05	75.05
CS	1.3855	1.3825	2.0634



### WALL STREET

## Retreat gathers momentum

A BOUT of profit-taking again left Wall Street stock markets retreating from last Wednesday's record high although analysts described yesterday's downturn as an orderly correction, writes Michael Morgan in New York.

At 3pm the Dow Jones industrial average was down 15.48 at 1,456.65. In the credit markets, a firmer than expected federal funds rate, together with the results of a survey of purchasing managers showing that the economy improved again in November, left prices of Treasury coupon issues lower in early dealing.

Prices picked up, however, to around Friday's closing levels before the Fed stepped in with the addition of temporary funds through a three-day system repurchase agreement when the Fed funds rate was 8% per cent. Bond and note prices later eased back with an unexpected delay in publication of the index of leading indicators for October adding to a hesitant mood.

In the stock markets, Texaco was again heavily traded, down 5% at \$32 amid reports that the company's lawyers are seeking a one-week delay of the hearing set for Thursday on a Texas jury's \$10.5m award against it.

Other oil stocks also continued lower, with Standard Oil of Ohio down 1% at \$50%, Chevron off 5% at \$37% and Atlantic Richfield 1% lower at \$65%.

Among blue chips, IBM lost 5% to \$138%, General Motors 5% to \$69% and General Electric 5% to \$64%.

Retailers were mixed despite reports of strong sales as the official Christmas shopping season began in the wake of the Thanksgiving holiday. R. H. Macy traded unchanged at \$81%, Sears Roebuck was 5% lower at \$36% and J. C. Penney was 5% higher at \$54.

Stop & Shop, the supermarket and discount stores chain, was 1% lower at \$39% reporting third-quarter net income down to 34 cents a share from 66 cents a year ago. Elder-Beerman Stores, with department stores in Ohio, was 1% lower at \$31% despite higher third-quarter net profits.

In the high-technology sector, Commodore International eased 5% following plans to reorganise top management. Stock in NEC of Japan, traded as American Depository Receipts, gained 5% to \$30% as it announced increases in the price of memory chips.

Control Data shed 5% to \$18% as it sold the direct equipment finance portfolio of its commercial credit equipment unit to Sanwa Bank of Tokyo.

United Technologies, the aerospace and building systems group, shed 5% to \$41% as machinists began the first strike in 25 years at three of its Pratt & Whitney plants after rejecting a three-year contract offer.

Brokerage stocks drew little comfort from analyst's expectations that the sector was likely to post pre-tax profits of about \$3.5bn for this year — the second best result yet and twice the 1984 outcome. Merrill Lynch was down 5% at \$33%, Philbro Salomon 5% at \$42%, E. F. Hutton 5% at \$35% and Paine Webber 5% at \$34%.

On the takeover front, SCM was 5% easier at \$72% as Hanson Trust extended the expiry date for its cash tender offer to December 23.

Rorer group was down another 1% to \$33% in continued reaction to its agreement to buy Revlon's ethical pharmaceutical business, Pantry Pride, which recently acquired Revlon, eased 5% to \$8%.

Actively traded stocks on the New York Stock Exchange included Baxter Travenol, 5% lower at \$14%, AT&T 5% easier at \$23%, and Eastern Air Lines, 5% higher at \$6%.

In the bond markets, the price of the key 9% bond of 2015 dipped 1/8 having been 6 1/2 higher at one stage. The 9% per cent notes, due in 1995, were 1/8 lower at 99 1/8.

Among short-term securities, the yield on the three-month bill at 7.19 per cent was four basis points higher while the six-month bill, yielding 7.27 per cent, was two basis points higher.

### LONDON

NERVOUSNESS over Far Eastern markets eroded early enthusiasm which had been sparked by takeover activity in London yesterday.

The worries over the closure of the Singapore and Kuala Lumpur markets trimmed 18.5 from the FT Ordinary share index which closed at 1,124.4 after a 1-point rise earlier in the day.

The lively start to the session followed Argyl's bid for Distillers and the announcement of Imperial Group's offer terms for United Biscuits. All the shares traded actively, with Argyl closing 11p up at 348p, while Distillers was 5p down at 505p. Imperial Group shed 4p to 240p, and United Biscuits lost 5p to 273p.

Stores were sharply down after leading the market higher in recent sessions on takeover speculation. British Home Stores lost 20p to 412p.

Interest in government securities remained low, but some demand for medium and long resulted in gains of up to 1/8.

Chief prices changes, Page 39; Share information service, Page 38; Details, Pages 36-37

### HONG KONG

CONCERN over suspension of trading in Singapore and Kuala Lumpur took Hong Kong sharply lower.

The Hang Seng index was under pressure throughout the day, losing 15 points in the first hour of trading. It closed 22.38 down at 1,694.57.

Among banks Hang Seng shed 75 cents to HK\$46.25, Hongkong and Shanghai lost 5 cents to HK\$7.70 and Bank of East Asia was 10 cents down at HK\$23.70.

Trading in the shares of Ka Wah Bank was suspended on news that it was discussing a capital restructuring plan involving Amey, the Dutch insurance group, and Kai Hing Enterprise, of Hong Kong, taking a substantial minority stake in Ka Wah. It last traded on Friday 10 cents up at HK\$1.12.

Swire Pacific fell 50 cents to HK\$29 despite an announcement that Caledonian Far East had withdrawn an application to fly from Hong Kong in competition with Swire's Cathay Pacific Airways.

### AUSTRALIA

LOWER international gold prices helped to weaken Sydney, and the All Ordinaries index closed 2.5 lower at 988.2.

Brokers also blamed the downward trend on a lack of overseas interest, but said the market might now have bottomed out.

Among mines Western Mining was 6 cents lower at A\$3.22, Bougainville was 3 cents down at A\$1.80, MIM slipped 3 cents to A\$2.45 and Poseidon shed 10 cents to A\$3.50.

Banks went against the trend and closed generally firmer. Westpac added 2 cents to A\$4.55, and ANZ was 3 cents up at A\$4.78 while National Australia Bank closed unchanged at A\$4.70.

Elsewhere, BHP slipped 6 cents to A\$8.28, Bell Group was 5 cents down at A\$11.50 and Elders DXL lost 2 cents to A\$2.95.

### SOUTH AFRICA

GOLDS drifted lower in Johannesburg largely because of the weaker international bullion price.

Among gold mines Buffels shed R2.50 to R78, Driefontein was R3.75 lower at R48.75 and FS Geduld tumbled R4 to R72.

Mining financial Anglo American Corp was also down, losing 40 cents to R37.75. Other miners followed the trend, with Rustenburg Platinum down 75 cents at R25.25 and diamond share De Beers 40 cents lower at R15.10.

Elsewhere among industrial leaders, AE&CI firmed 5 cents to R9.40 while Barlow Rand slipped 35 cents to R13.75.

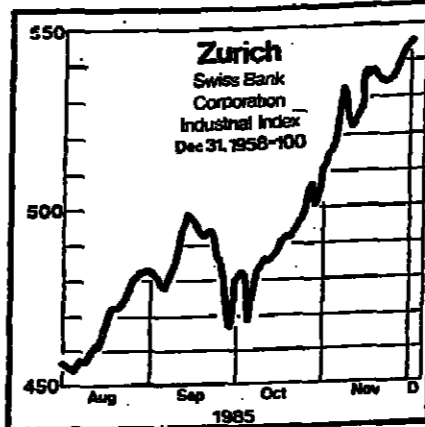
### CANADA

A TECHNICAL retreat took Toronto lower after Friday's record high.

Banks, which had helped pace last week's rally, traded generally lower, with Royal Bank of Canada 5% down to C\$34%, Bank of Montreal 5% down to C\$33% and National Bank of Canada 5% down to C\$32%.

Among active Canadian Pacific slipped 5% to C\$17% while Dome Petroleum firmed 5 cents to C\$3.40 and Mital added 5% to C\$9%.

In Montreal all sectors also traded generally lower after recent gains.



### EUROPE

## Bulls rub elbows with profit-takers

THE BULLS rubbed elbows with profit-takers on the European bourses yesterday as new highs were managed despite some heavy technical corrections.

Zurich broke new ground. The Swiss Bank Industrial index gained 3.7 to a record 545.90 against a background of corporate news with the main feature of the session the Brown Boveri announcement about plans for its 65 per cent-owned West German subsidiary. The engineer is offering DM 310 a share for a further 10 per cent stake in the subsidiary, an offer likely to cost the parent Sfr 80m. BBC closed Sfr 65 down at Sfr 1,840, also on consideration of its nine-month figures.

Sunday's rejection of a ban on vivisection added some strength to chemicals and pharmaceuticals, sectors most likely to suffer from laboratory restrictions. Hoffmann-La Roche rose Sfr 150 to Sfr 11,550.

Buying interest among banks was concentrated on registered shares. Credit Suisse firmed Sfr 20 to Sfr 645 while the bearer form held steady at Sfr 3,500.

Profit-takers eroded part of Holderbank's strength with a Sfr 50 dip to Sfr 4,000, and insurers took on an easier bias as Winterthur shed Sfr 10 to Sfr 4,980.

Industrials benefited from strong domestic support, with Nestlé adding Sfr 55 to Sfr 4,530 although its bearer and participation certificates turned lower.

Frankfurt was peppered with corporate news, but this failed to provide any support for prices. The Commerzbank index lost a further 38.4 to 1,889.2 — a fall of 85 points since last Monday.

The fall of the dollar below the psychologically important DM 2.50 threshold failed to trigger any substantial selling pressure as the market braces itself for the technical consolidation in the wake of the record performance in November.

The blood-letting continued in the car sector, with Porsche falling DM 20 under the influence of a weak dollar to DM 1,230 while VW lost an unusually large DM 12.80 to DM 389.20 and BMW retreated DM 12 to DM 541.

Chemical stocks also suffered, with Schering DM 12 lower at DM 623 after the break-off of talks with Henkel over the purchase of two of the latter's US subsidiaries. Degussa lost DM 4 to DM 421 in line with the lower bullion price while Hoechst settled DM 3.80 cheaper at DM 247.40.

Deutsche Babcock's higher but unstated profit for the year did not prevent a DM 5 setback to DM 204 while other machine-makers fared less badly.

Further details of the Boss flotation were revealed. The family-owned fashion producer's DM 15m capital will be split into DM 7.65m in ordinary voting shares and DM 7.35m in non-voting preference shares ahead of the flotation. Final details will be revealed next Tuesday with trading due to commence in Frankfurt and Stuttgart on December 20.

Meanwhile, Rütgerswerke is raising its capital by DM 19m to DM 118.6m through a two-for-11 rights issue at DM 150 per DM 50 nominal share. The share price of the chemicals-to-construction group eased 50 pf to DM 459.50.

Bonds were largely unchanged, with the Bundesbank limiting its intervention to a minimal sale of DM 400,000.

Internationals suffered a brisk downturn in Amsterdam partly due to the softer dollar and fears that the current bull stampede might be running out of steam.

Unilever posted an early FI 3 gain before settling unchanged at FI 390 amid rekindled, and still hotly denied, rumours by the Dutch international that it is about to bid for the UK pharmaceuticals group Beechams.

Akzo, another dollar-sensitive issue, lost FI 2.80 to FI 136.00 while Philips held most of its ground with only a small 30-cent fall to FI 56.10.

The recent heavy level of foreign support for bank shares was notably absent yesterday, with ABN turning FI 10.50 cheaper at FI 535.50 and NMB losing FI 6 to FI 219.

Milan peaked again, but the profit-takers were much in evidence. Blue chips were particularly sought after.

Fiat, which announced on Friday an accord giving it indirect control of Snia, put on L70 to L5,170, and Snia rose L105 to L5,190.

Montedison picked up L137 to L2,597 following Friday's confirmation that Gemina had sold its 17.1 per cent stake in the company to the Varasi group and Warburg of London.

Brussels was dull and lower while Madrid made modest progress. Profit-taking surfaced in Paris and Stockholm finished mixed to higher.

### TOKYO

## Blue chips remain in backwater

SPECULATIVE trading of small-capital issues was the only active note in an otherwise dull Tokyo yesterday, writes Shigeo Nishiwaki of Jiji Press.

Domestic demand-related stocks, blue chips and large-capital issues remained unpopular throughout the session.

The Nikkei average gained 17.39 to 12,796.92 on a volume of 212m shares, down from last Friday's 264m. Gains outpaced losses by 421 to 347, with 155 issues unchanged.

Institutional investors and corporations remained on the sidelines. Some big securities companies bought smaller-capital stocks in a bid to enliven trading. Speculators followed the lead given by the companies.

Leisure-related stocks were buoyant. Toei firmed Y28 to Y322 with the second busiest volume of 9.8m shares traded. Korakuen Stadium added Y12 to Y692 and Toho Y350 to a record high of Y16,250 on investor interest in the company's urban redevelopment projects.

Speculators were also sought. Shinagawa Fuel rose Y40 to Y2,030, Takashima Y45 to Y490 and Chisan-Tokan Y15 to Y640.

Among small-capital consumption-related issues, Takashimaya and Seiyu Stores gained Y10 each to Y599 and Y938 respectively. Tokyū Department Store rose Y5 to Y825.

Old Electric Industry remained the most active stock with 9.8m shares changing hands. It climbed Y13 to Y740 on rumours that it might link with IBM of the US.

NEC opened higher on buying by investment trusts, but closed Y10 down at Y1,250 on profit-taking. Other blue chips were mixed.

Large-capitals remained out of favour. Mitsubishi Heavy Industries moved up Y7 to Y372 on a small turnover of 2.3m shares, while Nippon Steel edged down Y1 to Y154 and Tokyo Electric Power weakened Y40 to Y2,300.

According to a Daiwa Securities survey, every year since 1965 the Nikkei market average has been higher in February than in December. Leading securities firms hope to revitalise the market towards the end of the year, but their task does not appear easy in view of the increasing shift of funds to short-term financial instruments.

Bonds prices moved narrowly on a high plateau. Buying exceeded selling in early trading on expectations of higher prices. But selling gathered momentum after the yen dropped to Y203 to the dollar.

The yield on the bellwether 6.8 per cent 68th government bond due in December 1994 fell to 6.140 per cent.

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